

The University of Chicago

THE CHICAGO CLEANING AND
DYEING INDUSTRY, A CASE
STUDY IN "CONTROLLED"
COMPETITION

A PART OF A DISSERTATION SUBMITTED TO
THE FACULTY OF THE DIVISION OF THE
SOCIAL SCIENCES IN CANDIDACY FOR
THE DEGREE OF DOCTOR OF PHILOSOPHY

DEPARTMENT OF ECONOMICS

1939

By

MORRISON HANDSAKER

Private Edition, Distributed by
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CHICAGO, ILLINOIS

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PREFACE

This publication represents the "essentials" of a dissertation submitted to the Department of Economics of the University of Chicago, in August, 1939. In the digest of the study it has not been possible to include all source citations or to supply a detailed bibliography. For these, reference should be made to the complete work in the Library of the University of Chicago.

The study was begun in June, 1931, under the auspices of the Local Community Research Committee of the University of Chicago and is one of a series of studies of economic problems in Chicago and Illinois.

When the study was started, Dr. Benjamin M. Squires had recently become Chairman of the Cleaners and Dyers Institute of Chicago, and also standing arbitrator between the association of employers and the three unions in the cleaning industry in Chicago. Dr. Squires consented to supervise a study of the industry and particularly the techniques which he was using in regulating both wages and prices in the industry. His connection with the industry made it possible for me to visit cleaning plants and tailor shops, interview leaders in the industry and to attend both employers' association and union meetings. I thus heard first hand vivid descriptions of the troubles of the industry, often colored by picturesque invective.

As my study progressed, I focused my attention increasingly upon the price control features of the institute's plan and became increasingly convinced that these were socially undesirable because they introduced rigidities into the price structure which were especially unfortunate in time of depression. In 1934, abundant material for a case study of the business practices in the cleaning industry became available when Dr. Squires and other leaders in the industry were tried for conspiracy. Although they were acquitted, the sworn testimony furnished much evidence as to joint action between the employers' association and the unions for the control of prices.

Many persons with whom I talked and consulted during the course of my study disagreed with my conclusions that the "cut-throat competition" of which the industry complained was merely a working out of a necessary economic adjustment. One who disagreed once exclaimed, "When you oppose 'price control' you make a fetish of employment and production!" To this charge I am glad to plead guilty.

My conclusions appeared for a time to be contrary to the prevailing trend in popular economic thinking and especially so when the N. R. A. Code for the Cleaning and Dyeing Trade gave national sanction to wage and price fixing for a period of approximately six months. During part of that time I served as Cleaning Code Advisor for the Consumers Advisory Board of the N. R. A. and continued my study of the effect of price control. The collapse of N. R. A. price control seems to have been a factor leading to a reversal of Federal Administration policy as to price regulation. Thus we now have the Temporary National Economic Committee investigating monopolies to ascertain their effect on business recovery.

I am indebted to many of the Chicago cleaners and tailors for much opinion and information which they have given.

Dr. Paul H. Douglas, Dr. Frank H. Knight, and Dr. R. W. Stone, all of the University of Chicago, have read portions or all of the manuscript and their criticisms and suggestions have greatly aided me. Dr. Squires, before his death in the winter of 1937, read early drafts of this dissertation and made valuable and extensive marginal comments.

Most of all I am indebted to two individuals for great aid in bringing this study to completion. Dr. H. A. Millis, formerly Chairman of the Department of Economics of the University of Chicago, has been most generous with his guidance, interest, and patience during the many months that this study was in process. My wife, Marjorie Linfield Handsaker, has greatly aided the development of my thinking on the theoretical matters herein discussed by serving as a patient audience and a kind critic when theoretical sections were being evolved. In addition, she has performed yeoman service in editing, proof-reading, and checking the entire manuscript. The quantity of work and the worth of the service which this involves can be appreciated only by those fellow sufferers who have toiled through the preparation of a doctoral thesis.

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CHAPTER I

THE PROBLEM AND THE INDUSTRIAL BACKGROUND

Introduction

"Cleaning and dyeing is not an industry but a disease!" This exasperated exclamation came from a Chicago plant owner who had been the center of a bitter struggle in the Chicago industry for many years. His competitors termed him one of the chief "headaches" in the industry, because of his consistent refusal to abide by price agreements. He was even more unpopular when he advertised his alliance with the famed gangster, Al Capone, who had agreed to supply protection which the police seemed powerless or unwilling to give. Although this plant owner was clearly not a typical producer, even in Chicago, his characterization of the industry might easily have come from many another producer in the field.

The cleaning industry has long been recognized as a problem industry. Newspaper accounts of smashed windows, acid throwing and bombings in Chicago, Los Angeles, and in some other cities, have dramatized one aspect of the industry's ills to the general public. The average citizen, in his capacity as consumer, has had little to guide him in choosing cleaning service, whether or not he was influenced by price, and has too often suffered from poor quality service and irresponsible policy with respect to damage claims. National Recovery Administration Code hearings gave evidence that cleaning workers in some areas had been exploited with long hours and small pay, particularly during depression.

Cleaning plant owners have been even more keenly aware of the problems confronting the industry. Prior to 1925, prices for cleaning service were relatively high, and substantial profits were made without the exercise of any unusual business ability. Price declines began in some areas before 1929, and after that date became intensified with the deepening of depression. While the prices for cleaning a standard garment, such as a man's suit or a plain dress, had been as high as \$1.50, and even \$2.50 in

some instances, before 1926, they fell to 50 cents, 39 cents, and even 19 cents in some places in 1933. Newcomers had been attracted into the industry during the 'twenties by the large profits, and the fact that a relatively small investment was required. When demand declined with depression, this increased capacity exerted a greater downward drag on prices. Producers tended to resist all price reductions, even those early price declines which passed technological gains on to consumers. When reductions following 1929 threatened to bring prices down below average cost, leaving little return for overhead, producers became desperate. Fearing bankruptcy if they could not meet fixed charges, they attempted (1) to reduce direct costs, or (2) to maintain or raise prices through joint action. In cases where there were no union contracts, wage rates were often drastically reduced. Campaigns of "education" to persuade fellow producers of the evils of price reduction were instituted. Loud cries were raised against the iniquities of "cut-throat competition." This term was applied to all reductions in price, and was not confined, as it had been in the 'nineties, to reductions by a monopolist of price to a level below marginal cost, with a view to eliminating an isolated competitor.

Methods devised in different parts of the country to resist "cut-throat competition" took a variety of forms, varying from gentlemen's agreements to formal plans based on purportedly legal contracts. All expressed the common belief of producers that the root of their difficulties lay in "excessive competition" and in the "price problem." If prices could be controlled it was said that questions of low wage rates could be adjusted accordingly. Some control plans prescribed minimum wages as well as minimum prices. Others also specified standards of quality to serve as guarantees for the consumer.

The purpose of this study is to analyze these plans with a view to answering the question: should associations of producers be permitted to maintain prices in the cleaning industry when decline in demand or other factors threaten the current level of prices? A question might also conceivably be raised as to whether price maintenance should be permitted when prices are high and reductions would threaten only monopoly profits, but the former issue has been the one receiving the greatest amount of attention since 1929.

It has been urged not only by producers, but also by some impartial students of the problem, that wide-scale bankruptcy will be averted, that "purchasing power" of labor will be increased, and that there would be an end of violence in the industry, if anti-trust legislation were repealed, and producers were permitted to control prices through joint action. Others have urged governmental regulation of prices and capital invested in the industry on the analogy of a "public utility."

None of these suggested solutions appears to give sufficient attention to the underlying economic factors which would probably affect the outcome if these proposals were adopted. The elementary fact that fewer garments will be serviced at a higher price is often overlooked and is almost always too little appreciated. Nor are the effects of artificially high profits on investment, and changes in average direct cost with changes in volume given sufficient attention. The influence of the business cycle is often overlooked. Again the effect on other industries and the consumer is frequently not considered.

To test the validity of the suggested answers it will be necessary to examine the experiments with price control and to ascertain the probable causes of the instability which these plans have demonstrated.

In this study, attention is focussed upon the price control plans of the Chicago Master Cleaners Association and the Cleaners and Dyers Institute of Chicago, since these were the most far-reaching plans developed under private auspices. Private plans in other cities and governmental price-fixing under the N. R. A. Cleaning Code are also reviewed briefly.

The basic characteristics of the industry which on the one hand give rise to the desire of many producers to establish price control plans, and on the other contribute to the instability of these plans, are summarized in the following section.

Industrial Background

The cleaning and dyeing industry is a service industry devoted primarily to the restoration of apparel and furnishings to an appearance as nearly like new as possible. It provides a service which it is either difficult or dangerous to duplicate in the home. Technically dry cleaning is the process of removing dirt and stains from textiles by washing them in organic solvents

which, in contrast to water, do not cause shrinkage of textile fibres. Redyeing of faded goods, or dyeing of new goods to match a given shade on special order, constitutes an increasingly smaller proportion of the volume of business.

The agencies furnishing dry cleaning service may be classified broadly into two groups: (1) the tailor shops, and (2) the cleaning plant owners.

Tailor shops are receiving stations for clothes to be serviced. Usually the dry cleaning is not done on the premises, but garments are sent to a cleaning plant which dry cleans clothes on a wholesale basis. Women's dresses are customarily finished entirely at the plant, while men's suits are returned "rough dry," and are repaired and steam pressed in the tailor shop. The wholesale price paid by the tailor shop to the plant for women's dresses is often two-thirds of the retail price, while that paid for men's suits is frequently one-third of the retail price.

Some cleaning plants specialize in either wholesale or retail cleaning, while others do both types of work. Wholesale work is collected by truck from tailor shops, known to the industry as "stops." The truck drivers accordingly hold a key position in the industry, for their organized refusal to collect work from a particular tailor shop or to deliver to a given wholesale plant has a disastrous effect upon the unit so "disciplined."

Many retail plants send trucks to individual patron's homes on call. Each truck driver attempts to build up a list of patrons and to establish a personal claim to the work of these customers. Plants stressing quality at de luxe prices often establish a clientele of wealthy patrons. Other retail plants maintain branch stores, usually called "chain stores." These are often operated on a "cash and carry" basis, and frequently appeal to customers by reducing prices and offering fewer refinements in their service.

There are great variations between plants in the quality of service offered. The fundamental process is washing the garment in cleaning solvent. The majority of plants use Stoddard Solvent, a petroleum product, which is somewhat less flammable than gasoline, but is still subject to a fire hazard and also gives off some fumes. In recent years there has been increased use of carbon tetrachloride solvent, which is not flammable, but gives off fumes which are very dangerous to the health of employees,

if the solvent is not used in fume tight machines. Tests have shown no appreciable differences in the effect of the two solvents on textiles.

Poor plants give garments a hasty rinse in rancid and dirty solvent, while better plants rinse garments in clean solvent or use machines which permit a continuous flow of "clarified" solvent into the cylindrical washer. Garments which are left too short a time in the rotating "extractor" (which removes solvent), or in the "drying tumbler" (which contains hot steam) may retain the odor of cleaning solvent. Greater variation in quality occurs in the removal of spots. The "gents' spotter" easily removes water spots and "sweet spots" from men's dark clothing by brushing with water or carbon tetrachloride. The "fancy goods spotter" has a more complicated task in removing spots from ladies' dresses since he must predict the reaction of the spot, the textile, and the dye to the spot removing fluid. In cheap services the more difficult spots are often left untouched.

There are also variations in the extent of repairs, and in the skill of finishing by steam press or by hand-iron equipped with a device releasing steam. Women's dresses are usually finished by hand-iron, although in recent years there has been an increasing tendency to use machines. The variations in quality intensify the problems of the consumer in choosing services.

Statistical survey of the industry.--In terms of dollar volume of receipts, the cleaning and dyeing industry is small. Annual receipts for Chicago cleaning plants in 1929 amounted to only three-tenths of one per cent of the value of product for all manufacturing industries in that area. The industry is even small compared to power laundries, since cleaning plant receipts in Chicago in 1929 amounted to less than one-third of those of power laundries.

In the country as a whole there were 5,510 cleaning plants with annual receipts of more than \$5,000, in 1935. This represents an increase over 1919 of 215.2 per cent. In 1929 there were 5,296 plants employing 59,148 workers, and collecting gross receipts of \$201,255,000. The growth in demand for dry cleaning services was very rapid in the years preceding 1929.

The industry experienced a sharp cyclical variation following 1929. Between 1929 and 1933 the amount received for work done declined 64.3 per cent. These figures are influenced both by the

decline in garment volume and by price declines.

In Chicago there were 83 cleaning plants in 1925, 112 in 1929, and 103 in 1935. Because of artificial restrictions imposed on entrance into the industry and controlled prices, the number of plants and dollar volume of receipts did not show as marked changes in Chicago as in the country as a whole between 1925 and 1929. Gross receipts in 1929 were \$11,989,312 and in 1935 \$7,219,771.

The cleaning industry is also subject to sharp seasonal variation. Pre-Easter peaks in Chicago have run as high as 160 per cent of the average weekly volume for the year, while secondary peaks in September or October were from 30 to 40 per cent above the weekly average. December and January represent periods of lowest activity, falling to 50 per cent of the average weekly volume for the year.

The majority of plants are small. In 1929 the typical plant employed from one to five workers, and more than 88 per cent employed twenty or less. Gross annual receipts for the typical establishment were from \$5,000 to \$20,000.

Capital requirements are relatively low. In 1919, census data showed the average investment in the country as a whole was \$13,327, and in Chicago, \$22,079, while the average for power laundries in the United States was \$27,088. Particularly after 1929, plants could be put in operation with a smaller investment than this, if reconditioned second hand equipment was purchased. The fact that capital requirements were low compared to other enterprises encouraged entrance into the industry.

In addition to the cleaning plants, there were 57,397 tailor shops in the country as a whole, and 3,133 in Chicago in 1935. For the most part these were operated by the proprietor and members of his family. Even when members of the family who received any individual wages were included as employees, there was on the average less than one employee per shop. Average annual gross receipts per shop were \$2,282, as compared with \$1,796 in shoe repair shops and \$2,500 in hand laundries. Furthermore, since from one-third to one-half of the gross of tailor shops receipts had to be paid to the wholesale cleaning plant, the remainder for other expenses and remuneration of the proprietor was very small. A representative of a supply house estimated that a tailor shop could be opened for \$250, and one tailor reported that

he had begun business some years before with an investment of \$35. Tailors typically keep no bank accounts and have practically no assets worth attaching. The rate of failures is very high. A supply house representative estimated the turnover in addresses of tailors at ten per cent in an average year, and this underestimates the change in proprietorships, since many sales would result in the continuance of the business at the same location.

Demand for services of the industry.--As was shown in the statistical survey, the demand for cleaning services is subject to both seasonal and cyclical variations. This fluctuation causes apparent overcapacity during slack periods, and increases the pressure upon the individual producer to shade prices in the hope of attracting a larger share of business to himself.

In general the market area is limited to one locality. While retail plants attempt to maintain a list of customers there is always a certain amount of movement of customers between producers. Patrons of tailor shops and particularly those of chain stores operating on a "cash and carry basis" are more responsive to the price appeal than patrons of de luxe retail plants. Customers can thus be attracted from one to another as prices are reduced. The demand for the services of one producer is not completely elastic as price changes but approaches that condition where there are many outlets offering cleaning services.

Since there is little standardization in the industry, the consumer is at a disadvantage in choosing between competitors. He may easily be deceived as to the quality of cleaning he receives. While he can usually detect faulty spotting or poor pressing, he can not tell whether dark goods have been thoroughly cleaned. Some producers accordingly cut costs by reducing quality. When the producer advertises "economy" cleaning, which gives a thorough cleaning but omits costly repairs and hand finishing, and quotes this at a lower price, this is a legitimate service. Sometimes, however, the consumer pays the prevailing rate for poor quality service and is thus the victim of unfair competition on a quality basis.

Producers who favor raising price through agreement usually assume that the total demand for cleaning in a given area is completely inelastic. There are, however, factors which introduce a certain elasticity into the demand for cleaning. If the price rise were great enough home cleaning probably would be substituted to a greater degree, despite the inconvenience and even serious danger

involved in such cleaning. Home pressing can more easily be substituted for machine pressing. The time between cleanings can be extended by home "spotting." Furthermore, women may purchase new dresses rather than have old ones cleaned.

If high cleaning prices prevail in one market area only, patrons can send garments by mail to an area where prices are lower. On the other hand, strict standards of appearance for business and professional people make cleaning a virtual necessity, and danger and inconvenience prevent easy recourse to substitutes. It seems probable that the demand is inelastic within a significant range. Limited data available show that when prices were raised in certain cities there was an increase in dollar volume, but a decline in number of units serviced. Conditions of demand thus encourage producers to attempt price control devices.

Labor Costs.--Labor costs have been estimated at 65 per cent of total costs in the cleaning industry under prevailing methods of operation. They are accordingly a great concern to the producers in the industry.

During the 'twenties there was a shortage of skilled dyers and spotters, and these were able to command high wages. Other workers were trained on the job to perform the necessary semi-skilled operations. After 1929 there was an oversupply of cleaning workers. When prices fell, producers tried to reduce direct costs by cutting wages. Even in the few cities like Chicago and New York where there were established union wage scales, employers were often able to undercut these surreptitiously with little difficulty.

Cleaning plant truck drivers in Chicago were organized as a local of the International Brotherhood of Teamsters affiliated with the American Federation of Labor in 1917. The cleaning plant "inside workers" in Chicago were organized in 1919 and 1920, first in the Journeyman Tailors Union and subsequently as the Cleaners, Dyers, and Pressers Union, Federal Local Number 17742 of the American Federation of Labor. The tailor shop operators were organized as Federal Local Number 17792 in 1924. Through the joint action of these unions and the Master Cleaners Association, higher prices and higher wages prevailed in Chicago than in the surrounding areas. Between 1927 and 1930, average annual earnings for dyers in six typical Chicago plants were \$2,731. Drivers for these plants averaged \$2,332 per year. Union wage scales in Chicago in 1933 and

1934 were far above the N. R. A. Code minima of 33 cents an hour or \$14 a week in Northern areas. There were, however, numerous violations of these minima in the country as a whole as shown by the N. R. A. statistics of complaints of wage violation.

The N. R. A. gave an impetus to organization of cleaning workers in A. F. of L. locals, but the drive slowed down when the trade practice provisions of the Code were suspended in May, 1934. At present, organization does not have the protection of the National Labor Relations Act as service industries are generally held to be intra-state in character. Since 1937 there have been jurisdictional disputes in Chicago between three A. F. of L. affiliates, (1) Federal Local Number 17742, (2) Local Number 46 of the Laundry Workers, Cleaners, and Dyers International Union, and, (3) Local Number 3 of the International Association of Cleaning and Dye House Workers.

The Committee for Industrial Organization began organizing cleaning workers as members of the Amalgamated Clothing Workers in New York, Boston, Detroit, Los Angeles, and other areas, early in 1937. Even within the C. I. O. the jurisdiction of the Amalgamated over cleaning workers was disputed by the International Ladies Garment Workers.

Business judgment and ethics of producers.--It has been pointed out that the capital investment required to become a plant owner is relatively small. Some of the cleaning plant owners have risen from the ranks of employees in the older plants, but a larger number, called "jumpers" by their competitors, have come in from other fields without experience as craftsmen in the industry. For the most part plant owners are not trained to make business judgments by scientific methods. They appear to make decisions on "hunches." In one case a ten per cent increase in volume of business led to a decision to double plant capacity, without any consideration of probable future demand. Ill-considered investment has thus swelled the amount of plant capacity available. Judgments as to relative costs of different methods of operation are arrived at by guesses. Virtually no cost accounting is done in many plants, although the National Association of Dyers and Cleaners has endeavored for twenty years to educate its members in cost accounting methods. The Association is motivated by the belief that if cleaners can be taught to compute their average costs they will not be tempted to drop prices below this level.

Some firms are reported to have poor records as to settlement of damage claims, and to have engaged in a number of practices listed as unfair in the N. R. A. Code. Furthermore, many members of the industry in Chicago have shown no unwillingness to resort to collusion, and in some cases even to mete out violence to recalcitrant producers in order to "discipline the rats" who would not "go along" with the established price.

Tailor shop operators have even less education than cleaning plant owners. Many are immigrants who have difficulty in writing English and in keeping books. Only about five per cent have the requisite skill to make a complete suit of clothes to measurement. Those who can only do pressing and make minor repairs are derisively called "shoemakers" by the craftsmen. Many tailor shop owners started as operators of shoe shining parlors and later added cleaning services. Others formerly dealt in second hand clothing. As depression deepened, press operators laid off from men's clothing factories often invested small savings in opening tailor shops, in spite of poor business opportunities. Gross intake in many shops was only a few dollars a week, and in 1931 and 1932 tailors often used this to buy groceries, letting their bills to the wholesale cleaner remain unpaid.

While the majority of both tailors and plant owners believed in maintaining prices, the mere fact of numbers made it much more difficult to control the price policies of tailors than it was to secure approximate agreement among a limited number of cleaning plants in one market area. Even here it was difficult, because wholesale plants with idle capacity were often tempted to shade prices to tailors. Usually retail plants were more reluctant to reduce prices. Those tailors or wholesale plant owners who initiated price reductions did not have a sufficiently long range view to see that their advantage would be short-lived and that eventually their competitors would meet them and all would operate at a lower price level. It was these price cuts which the industry denounced as "cut-throat competition." Any price control plans devised by producers had to resist all these influences toward price reduction, and the strength of these influences goes far to explain the instability of the control plans.

CHAPTER II

EFFORTS AT PRICE CONTROL OUTSIDE THE CHICAGO AREA

Attempts to secure price control began as early as 1921. Many plans were developed under private auspices, while others invoked the aid of municipal, State and Federal authorities.

During the 'twenties, the National Association of Dyers and Cleaners conducted publicity campaigns against selling below average cost. This usually meant average historical cost. No consideration was given to marginal cost. Trade journals also painted the price cutter as a despicable character in an effort to build up sentiment against "spoiling the market."

Since such publicity was relatively ineffective, producers organized associations and agreed on a price for the local area. Gentlemen's agreements usually collapsed as soon as one or more members broke away. In Winnipeg, Canada, the agreement was reinforced by requiring members to post a bond which would be forfeited by violators. A similar plan in Sacramento, California, did not deter price cutters long, since the bonds were relatively small. In Montgomery, Alabama, heavy fines were imposed on members who cut prices. Most of these plans were developed during the early years of the depression, and had success for only a short period.

A plan involving interlocking contracts was developed in 1932 in Albany, New York. Mr. Morris Ungerman signed a contract with the tailors which gave him control over all their wholesale work with the privilege of sub-letting it. He signed another contract with the wholesalers in which they agreed to work for him exclusively. Recalcitrant tailors were reminded that all wholesalers worked only for Mr. Ungerman. Plant owners could be disciplined by threats of losing their "stops." A somewhat similar plan in Boston languished, perhaps because of unwillingness to test the validity of the contracts in court.

Sometimes plant owners were able to secure the protection of local ordinances which imposed high license fees or required the posting of cash bonds by agents from out-of-town plants who

solicited cleaning within the local area. The large license fee, such as that charged in Brunswick, Maryland, in 1932, probably acted as a deterrent to outside competition, although ostensibly imposed as a guarantee of reliability.

"Certification and limitation" plans, such as that instituted in Minneapolis and St. Paul, stressed the quality of service, but also maintained that quality could not be preserved without high prices. Participating cleaners organized an Institute, purportedly an impartial body, which maintained a rigid inspection of the plants of members. Qualifying members were permitted to lease an emblem certifying their work. Somewhat less than half the plants in the area belonged. Although only one cleaner dropped out in 1932, the members reported a serious decline in the volume of business.

Sometimes organized cleaners instituted a "multiple price" plan to meet the competition of chain stores which offered low priced service without refinements. The organized cleaners introduced an "economy" service at a lower price, while maintaining their de luxe service at the standard price. In Tulsa, Oklahoma, a three price plan met with considerable success in 1932.

Price Control under the National Recovery Administration

The N. R. A. Code for the Cleaning and Dyeing Industry (approved November 8 and effective November 20, 1933) empowered the Code Authority to establish "fair and reasonable minimum wholesale and retail prices" in local areas, subject to the approval of the Administrator of N. R. A.

A Code Authority of ten members was speedily constituted. It was composed of wholesale and retail plant owners and tailors, but failed to include any chain store operators. Local boards were also appointed promptly. These boards recommended price schedules for their areas, in one instance at least, basing their recommendations on cost data from only three plants. The first price schedule covering a substantial portion of the country and setting prices for a trial period of 25 days was approved by the Administrator on November 22, 1933, only two days after the effective date of the Code. Two more schedules followed in rapid succession. Prices for a standard garment varied from 65 to 98 cents, except in California where a minimum of \$1.00 was fixed under a State law.

The majority of the industry strongly approved these price provisions. Furthermore, the industry thought minimum prices were its just due in return for accepting the minimum wage and maximum hour provisions of the Code. Consumers, on the other hand, submitted petitions containing over 20,000 names between November 22 and December 2, 1933, in protest against the minimum prices which in some areas were as much as 100 or even 200 per cent over those previously prevailing.

The Policy Board of the Research and Planning Division and the Consumers Advisory Board had both opposed the inclusion of the price provisions before the Code was approved. The Consumers Advisory Board recommended the substitution of a provision forbidding sales below individual average cost. The Consumers Advisory Board also felt that price provisions should not become operative until standards of service, mentioned in the Code, had been defined. A committee was appointed to work on these standards, but no final rulings were made during the life of the Code.

The chain stores also opposed the minimum price provisions because no differential had been provided for "cash and carry" service. When the Code minimum price was adopted by retail plants and thus became a virtual maximum price, the chain stores were at a serious disadvantage. The chain stores argued their case at a hearing on December 11, 1933. On December 20, the entire schedule of prices was revised downward, the new base prices ranging from 50 to 75 cents, but no "cash and carry" differential was provided in the new schedule. De luxe establishments were encouraged to charge the prices prevailing before the reduction, and as an inducement were to receive special quality insignia. This proposal was never put into effect, however.

The Price Study Board for the Cleaning and Dyeing Industry established by the same administrative order which revised the schedule of prices, began an active study of prices in March and April of 1934.¹ The Board received petitions from 200 out of the 300 local price areas in the country, and these uniformly asked for increases in the fixed rates. The Board collected price data and relied almost exclusively on studies of average cost paying little attention to other forms of economic analysis suggested by the

¹The writer was assigned by the Consumers Advisory Board to serve as assistant to the Price Study Board during those months.

Consumers Board. Only one area study was completed by the Price Study Board.

Compliance with the price provisions of the Code was never complete, and became rapidly worse as chain store operators broke away from the established minimum prices to avoid losing their business to those offering "call and deliver" service at the Code price. Between December 2, 1933, and March 24, 1934, 1,046 complaints of violations of the trade practice provisions of the Code were filed with N. R. A. State offices.¹ Despite the comparatively small size of the industry, these represented 27.5 per cent of the complaints of violations of trade practice provisions of all codes during that period. In addition, the Code Authority received several hundred complaints some of which it attempted to settle, although it was without jurisdiction. Others it referred to the offices of the Compliance Division in Washington.

The Act provided for enforcement by referral of cases to the Federal Trade Commission which could issue restraining orders and by the action of District Attorneys in instituting suits in the courts. About one hundred cases under the Cleaning Code were referred to the Federal Trade Commission during the first weeks of the operation of the Code. There was some question, however, as to the feasibility of restraining orders and court enforcement because of the intra-state character of the industry. The majority of cases of reported violations were handled by an administrative procedure of the Compliance Division, under which the maximum penalty was removal of the right to display the Blue Eagle, the symbol of compliance with the N. R. A. Code. The trade journals clamored for enforcement, but investigation was slow and the number of unadjusted cases on hand mounted rapidly.

The deputy administrators came to regard the Cleaning Code price provisions as unenforceable. At a hearing on April 25, 1934, Mr. Robert Martino and the writer, representing the Consumers Advisory Board, pointed out that there had been a decline in man-hours of employment, and presumably in physical volume of production, after the price provisions had gone into effect, and accordingly urged their suspension.²

¹Complaints represent reported violations. There was probably a still larger number of unreported violations.

²For this the representatives of the Consumers Advisory

The Administration was also influenced to suspend the price fixing provisions of the Code by the unfavorable publicity surrounding the case of Jacob Maged. This New Jersey tailor was sentenced to jail for 30 days and fined \$100 for pressing a suit five cents below the price set under the New Jersey State N. R. A. Act. Although this was done under a State Act and the Federal Administration had no knowledge of the case until after sentence had been passed, newspaper accounts directed public resentment toward the Federal Code.

Cumulative pressure thus led to the suspension by Executive and Administrative order of the trade practice provisions on May 26, 1934. The suspending order also provided that trade practice provisions could be proposed for administrative approval in local areas if 85 per cent of the producers agreed to abide by them. Later events showed that administrative policy was opposed to approval of any agreements containing prices high enough to be satisfactory to de luxe shop owners. Only two local area agreements were finally approved and these contained no price provisions. Although the labor provisions of the Code remained nominally enforceable by the Compliance Division until the N. R. A. was declared unconstitutional on May 27, 1935, there was widespread non-compliance after May, 1934, much of which was not formally reported to the Administration. The Code Authority went out of existence with the termination of the trade practice provisions.

The breakdown of the price provisions was a great disappointment to the majority of those in the industry. The N. R. A. received 220 telegrams (curiously enough including one from Jacob Maged) and numerous letters and petitions from members of the industry in opposition to the suspension of the price provisions. Commentators in the trade journals attributed the breakdown of the price provisions (1) to the intra-state character of the trade, with resultant doubtful legal sanctions, (2) the failure to conciliate the "cash and carry" group with a price differential, and (3) the relatively high prices fixed, resulting in decline in demand and corresponding effort to obtain volume through price cuts.

Board were roundly denounced by the trade journals. See Roy Denney, "Consumers Advisory Board Report," National Cleaner and Dyer, XXV (May, 1934) p.21.

CHAPTER III
ORGANIZATION AND ATTEMPTS AT PRICE CONTROL IN
THE CLEANING AND DYEING INDUSTRY
IN CHICAGO, 1910-1929

Systems of price control in the Chicago cleaning industry were developed earlier, continued longer, and for many years were more profitable to the participants than any of the control measures reviewed in the preceding chapter.

The Chicago producers not only attempted to control prices by agreement, an action which might be considered a form of "imperfect competition," but went beyond this in arranging a series of interlocking controls on the industry enforced jointly by themselves and the unions.

It is the writer's contention that when employers and unions act in concert for the maintenance or increase of prices, that this is collusion, and that such a system can also be called a "racket." The word "racket" is thus used in its wider and more popular sense.¹ Such joint action would be termed a "racket" even if no violence were employed to enforce the rulings. In other industries, even in Chicago, the collusive type of action has existed without violence. It is true, however, that in the Chicago cleaning industry the series of formal checks on producers and workers which in themselves would constitute a "racket," were supplemented by brick and acid throwing, and slugging. The industry also was charged with two unsolved murder cases. Even when one looks at the record of violence, emphasis should not be placed on the form which this

¹Murray I. Gurfein defines "racketeering" as follows: "Racketeering is usually designated as . . . the activity for profit (in connection with the sale of goods or services) of an organized group which relies upon physical violence or an illegal use of group pressure to accomplish its end. . . . In common parlance also the term is often applied broadly to organized crime or to any easy way of making money." ("Racketeering," Encyclopaedia of the Social Sciences, XIII [New York: Macmillan and Co., 1934], 45.)

violence took, but on the fact that in the cleaning industry the demand for the services of gangsters, both small and great, came at the outset from within the industry. Violence was not imposed from outside by gangsters who created a menace and then sold protection against it. The "menace" type of racket has been termed a "parasitic" racket. Rackets in milk distribution, for example are often of this type. "Parasitic rackets" are quite different in character from the "collusive agreement," or so-called "stabilizing" type of racket. The latter describes the activity of business men who form alliances with the underworld in an effort to limit production and secure higher prices.¹ The Chicago Cleaning and Dyeing "racket" was of the "collusive agreement" type. Although it was not the first "collusive agreement racket" to be developed, nevertheless, it became a pattern for similar rackets in other cities.

Organizations within the Industry

Control in the cleaning industry during the period from 1910 to 1929 was based on the joint action of four organized groups: (1) the plant owners, (2) the delivery truck drivers, (3) the employees working within the cleaning plants, and (4) the tailor shops.

The Master Cleaners and Dyers Association.--After sporadic attempts at organization of the Chicago plant owners in 1897, and 1907, the first organization of any permanence was set up in 1910. In that year there had been a "price war" among wholesale cleaners. The purpose of these price reductions was to win tailors away from other wholesalers. The desire to control price cutters appears to have been the primary motive leading plant owners to join the Master Cleaners and Dyers Association. Plant owners also wished to force tailors to pay their bills to their wholesalers, by attaching each tailor permanently to one wholesaler, so he would be unable to leave an unpaid bill and switch to a new cleaner. Some cleaners also thought the new association would make it possible to avoid bidding up the wages of skilled workers of which there was a shortage. Some retail plant owners also felt that co-operative advertising

¹Ibid., pp. 47-49, and Gordon L. Hostetter and Thomas Q. Beesley, It's a Racket (Chicago: Les Quin Books, Inc., 1929). pp. 4-6.

by the new Association would distinguish Association cleaners from irresponsible cleaners offering poor quality work.

To accomplish some of these ends, one of the first acts of the Association was the adoption of the so-called "closed solicitation rule," prohibiting any cleaner from attempting by price cutting or in any other way to secure the trade of tailor shops not assigned to him.

The Association experienced early difficulties in enforcing this rule since at the outset it included less than half the plants in the city. Even its members occasionally broke away, and protected "stolen stops" by manning delivery trucks with sluggers. A retail price of \$1.00, in contrast to the prevailing rate of \$1.50, offered in 1910 by Morris Becker presented a further difficulty. Eventually, however, the Association gained in strength, and perfected its program of joint action with the unions which greatly strengthened its control over prices.

Laundry and Dye House Drivers Union.--The drivers for wholesale cleaning and dyeing plants were organized in 1917 and were amalgamated with a union of laundry drivers. This union had been established in 1903, but had been weak and ineffective for a number of years. The new union was known as the Laundry and Dye House Drivers and Chauffeurs Union, Local 712, of the International Brotherhood of Teamsters, Chauffeurs, Stablemen, and Helpers of America. This international is affiliated with the American Federation of Labor.

It is noteworthy that the attitude of the Master Cleaners Association toward the organization of the drivers' union was not the traditional one for employers' groups. Rather than opposing its organization, the employers actively encouraged the drivers to unite. One of the plant owners in the group which first formed the Master Cleaners Association stated that he had given his drivers two hundred dollars to aid in the formation of the new union. Evidence is not clear as to whether the original move to form the union came from the drivers or the plant owners. According to one account, the initiative came from the drivers, when John Clay, who was the head of the laundry drivers' union at that time, convinced the plant owners that a union of the drivers would be useful to them, and so won the active support of the plant owners.

The drivers of trucks for the wholesale cleaners were organized first, probably because they were in a more strategic

position, than the drivers for retail plants. The latter were not organized until 1923. The drivers for the wholesale plants formed the connecting link between the cleaners and the tailors, so their organization was particularly effective in enforcing the "closed solicitation" rule. If a wholesaler cut the price to tailors or "stole" the work of a tailor not assigned to him, the drivers union could instruct the members to take the work of tailors assigned to that wholesaler to other plants, until the wholesaler "saw the light." If the tailor cut the price to the public, the drivers' union could see that his garments were not collected. Self interest would encourage a driver to co-operate in such a scheme, since loss of a "stop" or a cut wholesale price would reduce the commission which he received. It was also believed that if the "closed solicitation" rule was enforced by the drivers rather than directly by the Master Cleaners Association, this would avoid the possibility of legal difficulties.

"Inside Workers Union".--The third group which aided in establishing price control in the industry was the union of employees working within the plants. Although this union is usually referred to as the "Inside Workers Union," it is formally known as the Cleaners, Dyers, and Pressers Union, Federal Local Number 17742 of the American Federation of Labor.

The Master Cleaners Association, in contrast to their attitude toward the drivers' union, opposed the formation of the inside workers' union. Union recognition was achieved only after two strikes, one in August, 1919, which won a foothold in a few plants, and another at the height of the Easter rush in 1920, which established the union in most of the remaining plants. Subsequently, Association cleaners negotiated collectively with the union through the Association.

At the outset, the union of inside workers was affiliated with the Journeyman Tailors Union of America, but broke away after a dispute over payment of a per capita tax to the parent organization. The inside workers' union was chartered by the American Federation of Labor as Federal Local Number 17742 on October 27, 1924.¹

¹The American Federation of Labor revoked this charter in the spring of 1937, and granted jurisdiction to a new union, Local Number 3, of the recently chartered International Association of Cleaning and Dye House Workers. The Chicago Federation of Labor, however, continued to recognize Local Number 17742, saying Local Number 3 was dominated by gangsters. Since 1935 some Chicago

Despite their early opposition to the inside workers' union, the cleaners soon recognized that the union could be used as an integral part of the machinery for enforcing the "closed solicitation rule."

The Tailors Union.--The fourth group which participated in restraining free competition in the industry is the organization of tailors, or press shop operators. This group is known as the Retail Cleaners and Dyers Union, Federal Local Number 17792 of the American Federation of Labor. After several sporadic attempts, this union was organized by James P. Gorman and Sam Ruben, in 1924.

It should be noted that the people so organized were really small shop owners. The few employees of tailor shop proprietors were nominally eligible for membership in the inside workers' union, but few were members in fact. It seems curious that the tailor shop operators should have been accepted in an American Federation of Labor Union, but no explanation could be secured from the Federation.

Ostensibly the purpose in organizing the tailors' union was to secure a more advantageous wholesale price from the Master Cleaners Association and to insure more uniform quality of cleaning and fewer delays in delivery from wholesale plants. It was also suggested that members might purchase supplies co-operatively. The union provided that shops should be closed all day on Sundays and holidays, and after 6:30 P. M. on certain nights of the week. It was also the intention of the union to prevent competitors from opening new shops within one hundred street numbers of those of its members.

There is evidence, however, that the organizers of the union were more interested in the two dollar dues to be collected monthly from each tailor, than they were in the services which could be performed for the tailors. To secure more members, organizers threatened reluctant tailors with a series of dark events, of a nature not specified, if they failed to join. In these respects the organization of the tailors' union resembles a "parasitic racket."

The tailors' union was soon assigned a part in the system for control of the whole industry. Although the Master Cleaners

cleaning workers have also been members of Local Number 46 of the Laundry Workers, Cleaners, and Dyers International Union. Law suits between these unions were in process in the Chicago courts in 1937.

Association opposed the organization of the tailors' union at the outset, they soon recognized that it could give a supplementary check on the "closed solicitation rule." The cleaners observed that union members could be more easily compelled to leave a wholesaler who cut prices and to send work to another wholesaler as directed, than could a disorganized group of independent tailors. Accordingly some cleaners put pressure on their tailors to join the union, even going so far as to threaten refusal to do wholesale work for non-union tailors.

As is shown below, some of the "strong-arm" work required by the Association in "disciplining" the industry appears to have been furnished by the tailors' union which maintained connections with Chicago hoodlums for this purpose.

Development of the "Racket" in the Industry

The system of joint action between the Association and the unions, which was clearly a "racket," did not come into being all at once, but became increasingly effective as new cross checks were devised. Throughout the objective was to control both wholesale and retail prices so that enlarged profits might be obtained. To do this it was necessary to keep existing plants and tailor shops in line, and to discourage the entrance of new business units.

Control of plants within the Association.--In detecting violations of the established prices, or of the "closed solicitation rule," and in punishing those guilty of infractions, the unions in the industry played an important role. For example, a truck driver who observed that his plant was offering a sub-standard price to a tailor, would report this to his union. Inside workers would also report to their union the fact that their employer was receiving work from tailor shops not assigned to him. The tailors' union employed men to watch suspected tailor stores and see that no truck but the one assigned picked up work, for in some instances tailors had been known to send a small part of their work to their assigned cleaner, and to send the rest at night, via the back door, to a cleaner offering a cut-rate.

Violations by plant owners were punished by: (1) imposition of fines, (2) depriving the offending cleaner of some of his tailor shops, and (3) by calling strikes in the violator's plants. Fines for stealing "stops" were reported to be as high as \$2,000. When a cleaner was deprived of his "stops," the drivers' union and

the tailors' union made sure that the tailors transferred their work to a newly assigned cleaner. Strikes called against a wholesaler guilty of "stop stealing" were usually of brief duration, and very effective. The cleaner had no alternative but to yield, since it would have been almost impossible to try to operate an open shop. Most of the labor in the city was organized, and such an effort would have surely invited violence. After inside workers or drivers were "pulled," plant owners usually negotiated differences with the Cleaners Association with little delay.

Control of non-member plants.--For some years there was one well-established plant which remained outside the Master Cleaners Association. That plant was operated by Mr. Morris Becker who has long been an important figure in the Chicago industry. It was he who initiated the price reduction in 1910. Cleaners who belonged to the Association have unanimously regarded him as the "lowest of the low," because of his sub-standard price policies, and his consistent refusal to combine with them.

For years the Association made every effort to whip the recalcitrant Mr. Becker into line. One method was to have the unions call strikes in his plant. For example, Mr. Becker and his son testified under oath that such a strike had been called in May, 1927, and that they had paid \$3,000 to the Association to have it called off.

"Whip stores" offering rates as low or lower than Mr. Becker's were opened by the Association near Mr. Becker's various shops, in a further attempt to make him "go along" with the other cleaners. These stores were known also as "fighting stores," or "community stores" since the local sub-division of the tailors' union was called a "community" and local tailors contributed to the support of these shops. The Master Cleaners Association also aided these stores by giving them a low wholesale rate.

Mr. Becker's shops were also bombed on occasion. While positive proof as to the source of the violence is lacking, a plant owner and a tailor told the writer openly, and with no apparent feeling of guilt, that this form of "persuasion" had been used on the "outlaw." Mr. Becker in December, 1925, brought charges of conspiracy against members of the Association and union officials. The case dragged on for more than a year and ended in acquittal when prosecution witnesses failed to appear. The story is told that when Mr. Becker asked the prosecuting attorney where the

witnesses were, he said, "If you want witnesses, get out and get them. I am a prosecutor, not a process server."

When this legal action was unsuccessful and when other efforts to secure legal protection failed, Mr. Becker decided to fight fire with fire. In April, 1928, he started to organize a new company known as the Sanitary Cleaning Shops, in which one of the incorporators was Alphonse Capone, perhaps the most widely known Chicagoan, later a resident of Alcatraz. Mr. Becker then announced: "I now have no need of the State's Attorney, the police department, or the employers' Association." In 1934 Mr. Becker testified that the organization with Capone was never completed, but the publicity seems to have been enough to have kept lesser hoodlums from injuring his plant. Mr. Becker thus remained throughout this entire period a threat to the price control program of the Association. Strike tactics similar to those used on Becker were also employed against the Michigan Cleaners in 1926.

Control over new producers.--It is clear that if the advantages of administered prices were to be exploited to the full, new producers must be kept out of the industry. The Cleaners Association accordingly took steps to hinder entrance of new firms.

One of the barriers raised against new plants took the form of restrictive fire prevention ordinances. While fire prevention justified ordinances providing that dry cleaning rooms should be separated from other buildings at least by fire walls and preferably by as much as fifteen feet of free space on three sides, an ordinance which was passed in Chicago in 1917 went far beyond this providing that the dry cleaning room of any new plant should be detached and at least fifty feet from any other building or line of adjoining property. Furthermore, if there was any residential property in the block proposed as the site of a new plant, the consent of the majority of property owners in the block had to be obtained before a cleaning plant could be erected there. One of the cleaners who had long been a leader in the Master Cleaners Association frankly stated that this provision was framed by the cleaners and passed by the City Council at their request. The Fire Prevention Engineer of the City of Chicago told the writer that when existing plants wished to alter their plants they obtained injunctions against enforcement of the ordinance, and that they were able to do this because they "passed out the dough" in large amounts and "kept the fix on." Occasionally new plants with

sufficient influence also obtained injunctions. The fifty foot rule incorporated in the Municipal Code of 1922 was finally held invalid in May, 1925, by the Appellate Court, and this ruling was upheld by the State Supreme Court in December, 1926. In May, 1926, after the decision by the Appellate Court, a new ordinance was passed providing for twenty-five feet of free space on four sides. This also appears to have been somewhat restrictive. The 1931 Municipal Code provided for fifteen feet of free space.

Three concerns which during the 'twenties attempted to establish a foothold in the wholesale cleaning business in defiance of the Association rules were special victims of violence. Especially ferocious and prolonged attacks were directed against the Central Cleaning and Dyeing Company, organized in 1927, and operated by Mr. Benjamin Kornick, without membership in the Association and as a non-union plant. Enemies of the plant sewed chemicals into the seams of suits sent to the plant ostensibly to be cleaned in the usual manner. In the heat of the drying tumbler the chemicals exploded and set fire to all garments in the machine at the time. This not only gave rise to damage claims, but injured the reputation of the company. On several occasions drivers of the trucks of this plant were slugged and the trucks burned. One of the most extreme cases of violence occurred in the spring of 1928. On this occasion the driver was slugged and thrown in the back of his truck, and the garments were sprayed with gasoline and set afire. Passersby rescued the unconscious driver. Although two officials of the tailors' union were arrested and charged with being involved in violence against the Central Company, no convictions were secured.

Shortly thereafter, Mr. George "Bugs" Moran, a notorious Chicago gangster, was taken into the Central Company as a stockholder. He also received a salary of one hundred dollars a week in return for what he described as his "knowledge of the technical end of the business." There was a notable decline in violence to the Central Company after his advent. Some years later a plant owner who had long been active in the Master Cleaners Association openly stated that the violence previously suffered by the Central Company was punishment for "stop stealing."

In 1923 trucks of the Union Cleaners were burned as punishment for "stop stealing." In 1929 three "strong arm men" attacked the driver of a truck of the Public Cleaners which had also stolen

"stops" in an effort to get started in the wholesale business. In the melee one of the thugs was killed. Later when the Public Cleaners came into the Association the firm was allowed to keep its "stops."

Not all new plants were subjected to violence probably because in some instances the Association and union officials thought it more profitable to accept substantial graft payments in return for allocating a few "stops" to a new wholesaler. The established Association plant which lost the "stops" apparently had no redress. Increasing demand for cleaning services played into the hands of the officials and made it possible to add a few new plants without threatening the prevailing profits from controlled prices. In one instance at least, the sum paid for "stops" by an incoming cleaner was \$3,000. New cleaners who paid their way into the industry and who maintained the standard price and hired union employees were unmolested.

At least once, payments went in the opposite direction, to prevent the operation of a cut-rate plant. In 1924 the Cleaners Association assessed its members and paid a quarter of a million dollars to buy out a cut-rate plant started by Hirschle Miller, a well-known Chicago gangster with a long criminal record.

Control over tailors.--Control over tailors also played an important part in the system of interlocking checks. Control was maintained chiefly through the "closed solicitation rule" described above. Another method of enforcing price maintenance was the levying of fines. These were used particularly in 1929 in an effort to stem the price decline. "Whip stores" were used against tailors who would not maintain prices, or who went over to an unassigned cleaner to secure a sub-standard wholesale rate.

Tailors who dropped out of the union and refused to pay dues, feeling that the union was of no value to them in negotiating wholesale prices, were often picketed as "unfair to organized labor." Sometimes the picket's placard asserted that the non-union shop had inadequate insurance.

Violence was also used against tailors who cut their rates to the public below the standard rate. Tailors who refused to heed warnings of drivers or union officials, sometimes had their windows smashed. Immediately after one window was broken by a steel ball bearing, police found a sling shot and more ball bearings in the car of two business agents of the tailors' union.

Newcomers were limited by the "one hundred number rule," stating that no new tailor store could be opened within a hundred street numbers of an existing shop, and enforced by refusing to allow a cleaner to accept the work of an outlaw "stop." Newcomers defying the rule were also threatened with violence.

Evidence of administered prices and resulting profits.-- Technical improvements throughout the period exerted a downward influence on prices, while increased demand exerted a counter influence. Technical influences had already been reflected in price declines from \$2.50 in the 1890's to \$1.50 in 1910. Although some cleaners subsequently met Mr. Becker's price of \$1.00, all but Mr. Becker raised prices to \$1.50 in 1917, and to \$1.75 by 1920. This upward movement to 1920 and the subsequent decline to \$1.00 in the period 1921 to 1925 may have followed movements in the general price level. A rise in the standard price in 1926 to \$1.75 seems to be clearly the result of a controlled price, since there was no appreciable change in the price level, wage rates were constant, and technical change was reducing unit labor cost. Although there was increase in demand, if free entrance of producers had been permitted there should have been no marked price rise.

That the price policy led to profits higher than would normally be expected in a freely competitive situation, is shown by the fact that a co-operative plant formed by a group of tailors, paid out in dividends in the period 1918 to 1931, fifteen times the amount of the capital stock, and shares whose original price was \$100 sold as high as \$650.

Cleaners paid themselves liberal salaries, frequently amounting to \$15,000 to \$20,000 per year, and yet the plants still showed profits. Furthermore, it is reported that some plant owners took winter vacations in Florida and at intervals of a few days wired back for sums of money running into the thousands to meet expenses and gambling losses.

Evidence of graft secured by officials of the four organizations.--The receipt of graft cannot, of course, be conclusively demonstrated, but sworn testimony at the so-called Racket trial of 1934 and affidavits to the State's Attorney, as well as information secured by the writer in interviews, all indicate special payments to officials. In many cases the proceeds were probably split among leaders of the different organizations engaged in joint action.

As has already been pointed out Association leaders secured large fees from prospective plant owners and from recalcitrants like Becker. They also accepted special payments to manipulate "stops" in favor of certain Association members. No accounting to the Association was rendered when officials imposed large fines on members who violated Association rules, or when assessments were levied for special purposes.

Union officials, it is reported, levied special tributes upon the Association as a whole as the price of calling strikes against price cutters. These funds were raised by special assessments, alleged to have sometimes totalled \$50,000, and to have been collected under threats of strikes or bombings.

Tailors' union officials grew rich while collecting dues and special assessments from the tailors. The complaint of Albert Boris, business agent, to the police in 1932 that he had been robbed of his car, and jewelry valued at \$6,750 is a commentary on his financial status.

Officials of the inside workers' union levied assessments on union members sometimes amounting to three days pay, when they wished to purchase new high priced cars. There is evidence that on at least two occasions they misused the funds paid into the union treasury by the cleaners for unemployment insurance benefits. They also made a practice of charging plant owners a fee of \$40 or \$50 apiece for skilled workers, when help was scarce. This clearly was a virtual theft from the employees.

Despite these practices, plant owners, tailors, and employees were probably better off financially than they would have been without this control. The consumer was the chief loser.

Weakening of Price Controls, 1929

Accounts of some of the tactics employed by the cleaning industry found their way into the newspapers from time to time, and the rising tide of adverse publicity was one factor which eventually weakened the system of price control.

Court action against Association officials and union leaders, although resulting in acquittal in four different cases during the 'twenties, nevertheless, caused the public to regard the industry unfavorably. Public opinion was even more influenced by the advertised alliance of Becker and Capone, and of "Bugs" Moran with the Central Cleaners in 1928. On November 14, 1929 the

cleaning industry was in the headlines again, when John Clay, head of the drivers' union, was shot by two desperadoes. The newspapers attributed his death to gangsters attempting to control the cleaning industry by dominating the drivers' union. There was evidence that "Bugs" Moran and the followers of "Big Tim" Murphy had each attempted to "muscle in" on the union treasury reported to contain \$250,000. No one was convicted, however.

Eventually a group of cleaners sought to restore the reputation of the industry by securing the appointment of Mr. C. L. Patterson as Executive Secretary of the Association in February, 1929. He was recommended by the United States Chamber of Commerce and was known to be an "open shop" man. Although some asserted that he was merely a "front," he seems to have made a genuine effort to reform the industry, and secured the election of a new set of officials for the Association.

During the spring of 1929, the Chicago cleaners had been losing an increasing volume of business which went by mail to plants in nearby cities where a standard price of \$1.00 prevailed, in contrast to the Chicago rate of \$1.75. In May, 1929, the Chicago cleaners faced a new threat to their established price. The Mid-Continent Company, which had recently purchased two Chicago plants, quoted a price of \$1.00, and immediately received a large volume of business. The Association, influenced by Mr. Patterson and the adverse criticism the organized cleaners had received, were reluctant to start a campaign of strikes and violence. In desperation, a number of cleaners reduced their prices, some to \$1.50 or \$1.25, and some to \$1.00 to meet the Mid-Continent price. Next there were violations of the "closed solicitation rule" and a scramble for "stops." There were also wage reductions in some plants, particularly after the expiration of the union contract on August 1, 1929.

Disorganization reached a climax when union employees were locked out of Association plants on November 14, 1929. The lockout was ostensibly called in protest against a co-operative plant, promoted by Mr. Benjamin Abrams, head of the inside workers' union. Mr. Patterson also hoped to depose Abrams and put the industry on an "open shop" basis.

A number of motives have been suggested for the building of the co-operative plant. Mr. Abrams said that it was to protect the workers against further wage cuts. Mr. Patterson and the cleaners alleged that Abrams was coercing workers into subscribing

for stock, and that he intended to exploit them for his own profit, and at the same time would undermine the business of Association plant owners. It was even suggested that Abrams intended to sell the plant to the Association at a sizable profit as a "shake-down." It is possible that a number of these motives may have influenced Abrams in promoting the plant.

The Association plants were reopened two weeks later, nominally on an "open shop" basis, but actually under the same conditions that prevailed before the lockout. Abrams remained in office. After continued negotiations, it was agreed that the co-operative plant should not be opened. There is some evidence, although this is not conclusive, that the Association members were assessed and a substantial payment was made to Abrams to secure this result.

A new union contract was eventually obtained by arbitration, on March 14, 1930. On December 27, 1929, Dr. Benjamin M. Squires, a noted labor arbitrator, then a lecturer at the University of Chicago, had been appointed standing arbitrator between the Cleaners Association and the inside workers' union, and also between the Association and the drivers. He received a similar appointment in November, 1930, as arbitrator for the Association and the tailors' union.

In his first award Dr. Squires refused the cleaners' request for a wage reduction and continued the 1928 scale. He made a concession to certain employers who had asked for a piece rates by approving such rates in specified occupations. The actual rates were fixed in June, 1930.

The industry attempted to establish a \$1.50 standard rate in April, 1930, but found it difficult to maintain in view of competition from mail-order plants and "Loop" receiving stations. The standard price was accordingly dropped to \$1.00 on May 31, 1930. Shortly thereafter the Cleaners and Dyers Institute was organized, and this brought a new chapter in the history of control in the industry in Chicago.

CHAPTER IV

THE CLEANERS AND DYERS INSTITUTE OF CHICAGO,

JANUARY, 1931--JUNE, 1932

When the Cleaners and Dyers Institute of Chicago was organized, Dr. Squires and others with social interest in the industry clearly viewed the Institute as something distinctly different from the previous organizations in the cleaning industry in Chicago. While the purpose was to restore control of prices in the industry, it was intended that the control should have a legal basis. Dr. Squires believed that the objectives of the plan were economically desirable. He believed in the fundamental evil of "cut-throat competition." He thought that "fair prices" should be maintained so that "fair wages" could be paid. In this his view was a forerunner of the N. R. A.

Dr. Squires had the misfortune to try out his theories in 1931 and 1932, when depression was exerting a harder and harder pull on prices and wages, and also to try them out in an industry and in a city where the traditions of collusive practices and violence were entrenched. Reversion to the practices of the Master Cleaners Association was probably inevitable in such a situation. Dr. Squires went into the industry knowing little of past records or present alliances of the leading figures in the industry, and for that reason was for a long time unaware of the part being played by gangsters in the industry. In retrospect, Dr. Squires remarked that he believed that he was given the controlling position in the industry, when he lacked business experience, because he had a nation-wide reputation and because a number of members in the industry desired to have him act as a "front."

The Sales Manager Plan

The essential feature of the new price control plan was the "sales manager contract." This contract was devised in the summer of 1930 by Mr. Morris Kaplan and Mr. Edward R. Johnston,

Chicago attorneys, with the encouragement of Mr. Walter Crowley, a former president of the Master Cleaners and Dyers Association. Dr. Squires reluctantly accepted responsibility under the proposed arrangements after being advised by a number of attorneys, and by the staff of the State's Attorney's Office in Cook County that in their opinion the contract was legal.

The plan provided for a series of individual contracts between Dr. Squires and each plant owner. Each contract made Dr. Squires sales manager for the individual plant. Dr. Squires was empowered to appoint a sub-manager to operate each establishment. In practice he appointed the owner of the plant as sub-manager. In order to enforce his rulings, Dr. Squires held a resignation from each sub-manager, which could be made effective if the plant did not follow the policies which he laid down. The cleaners agreed to pay Dr. Squires a sum equal to two per cent of their gross receipts each month. From these funds, Dr. Squires was paid a salary, an advertising campaign was financed, administrative expenses were paid, and other activities, discussed below, were financed. He had complete control over these funds.

Mr. Kaplan believed that the contract was legal because it applied to intra-state transactions, and thus was not in conflict with Federal statutes. Furthermore, he believed that it was not in conflict with the Illinois statute against combinations since that referred only to commodities, while the sales manager contract dealt with services. There were legal precedents in Louisiana and several other states where laundry owners indicted for attempts to fix prices in the laundry trade had been acquitted on the grounds that laundry service was not a commodity. In addition, district courts in New York had held that dyeing and cleaning of furs was the furnishing of labor, and, therefore, outside the anti-trust laws. The series of individual contracts provided in the sales manager plan may have been designed to protect it further from charges of being a conspiracy. One of its authors testified, however, that the series of individual plans was designed primarily to simplify court procedure in the event of violation by one cleaner.

On May 23, 1932, some time after the sales manager contracts had been put in operation, the United States Supreme Court rendered a decision which cast some doubt on the reasoning by which Mr. Kaplan attempted to prove the legality of the sales manager contract plan. In a case involving a price fixing contract

signed by cleaning plant owners in the District of Columbia, the Supreme Court ruled that this contract represented restraint of trade, and that "trade" as it appeared in the Sherman Act was broad enough to cover cleaners' services. Although this case dealt with a violation of the Federal anti-trust laws, it would seem to indicate that the cleaning industry was not exempt from the State anti-trust law on the ground that it furnished a service.

An organization campaign was begun in December, 1930, and the new plan was put in operation in January, 1931, with an Association membership of approximately 65 plants. Eventually about 90 cleaners in the Chicago area signed, and additional cleaners in the North Shore and Chicago Heights areas brought the total to something over 120 members. Dr. Squires estimated that the membership represented 60 per cent of the volume of the work in the area. Several important plants, such as the Michigan Cleaners, Becker, Abarbanell, and Peacock remained outside. In March, 1931, the new organization was given the name of the Cleaners and Dyers Institute of Chicago.

Dr. Squires appointed himself Chairman of the Institute. He regarded this as a third position, separate from his status as sales manager or arbitrator. A permanent staff consisting of the chairman, an executive secretary, a labor commissioner, and an expert on dry cleaning technique was also appointed. The Institute had a group of trustees who acted in an advisory capacity. Activities were carried on through a series of committees. These dealt with techniques, damage claims, publicity, "unfair practices" by members, and labor relations. In his capacity as chairman, Dr. Squires accepted or rejected the recommendations of the committees.

Wage Scales and Prices Established by Dr. Squires

In general Dr. Squires was opposed to wage reductions, feeling that it was better to maintain wage rates, and to attempt to compensate the plant owners by raising prices. As was pointed out above, his first wage determination, on March 14, 1930, had restored the 1928-1929 wage scale. Shortly thereafter the standard price for cleaning a suit was raised to \$1.25. The cleaners were unable to maintain this price, however, and when the price dropped to \$1.00, they renewed demands for wage cuts. They did not relax these demands even when the official price was again raised to \$1.25. In May and June, 1931, Dr. Squires had surveys made of

costs in representative plants. He experienced difficulty in interpreting the figures, because of the failure of some plants to keep accurate accounting records. After analyzing the records of some of the more efficient plants, he finally decided to reduce the wages of inside workers. The schedule put in effect on October 31, 1931, carried reductions of from \$1 to \$5 in weekly rates. Drivers' base rates were reduced by \$5, and percentages for commissions were reduced on December 31, 1931. The cleaners continued to ask for further reductions, and on March 25, 1932, Dr. Squires again made reductions of approximately the same amounts as before in the rates of inside workers, and reduced drivers' commissions. Despite these reductions, the union wage scales remained higher than rates of pay in non-unionized cities.

Dr. Squires set piece rates for finishing garments on June 10, 1930, raised them on June 20, 1930 and again on October 31, 1931, and then reduced them on March 25, 1932 to a level only slightly above the June 10 rates. Employers who chose to adopt piece rates found that they reduced unit cost in the finishing departments by from 40 to 50 per cent. More rigid inspection was required, however.

There were three major price levels set by Dr. Squires in his role as sales manager, during the life of the Institute. Through March 22, 1931, prices remained at \$1.00 for a standard article, the price which had prevailed before the formation of the Institute. On March 23, 1931, prices were raised to \$1.25, although many tailors were opposed to this. Committees of both tailors and cleaners urged Dr. Squires to make price reductions in the fall of 1931. There was an increasing amount of non-compliance with the Institute price at this time. In February, 1932, prices were reduced to 73 cents for a "sale" period. In March, 1932, the price was raised to 98 cents, although the majority of cleaners wished to continue work at 73 cents, but with a further wage reduction. Dr. Squires refused, since he was unwilling to reduce wages further.

Methods of Control Employed by the Institute

In order to maintain prices and wages, the Institute needed to secure membership of all cleaners in the Chicago area, and to see to it that members followed established price schedules. It also needed to reduce the threat of out-of-town competition so far as possible. For the organization to function successfully,

dues collection under the contract should also proceed regularly.

The possible methods which the Institute might use to enforce control may be classified as: (1) voluntary co-operation, reinforced by the legal force of the contract, (2) collusive action by the Institute and the unions, after the manner of the Master Cleaners Association, and (3) violence, either by hoodlums hired by the unions, or by a syndicate of gangsters commissioned to maintain "conditions" in the industry. Either the second or third plans would constitute racketeering.

The deepening of the depression from 1930 to 1932 made it increasingly difficult to maintain control on a voluntary basis. Dr. Squires and the Institute trustees were reluctant to attempt to enforce the contract by court proceedings. It is possible that they were not entirely certain that the Illinois courts would support the contract, despite the legal arguments which they could muster for it. They explained their hesitancy, however, on the ground that a court case would not be settled finally for a year or two, and it would then be too late to have any effect on the price cutting in the industry.

Despite this hesitancy to go to court, the Institute continued to make threats of such suits. Finally in 1932, one suit was actually started, but this was settled out of court when the cleaner paid the amount involved, so no legal test of the contract resulted.

Thus the contract, which had been heralded as an especially effective instrument for stabilizing the industry, failed to measure up in practice when no court action was taken to prove its force. Unexecuted threats of such action, accordingly, had less and less effect.

It was natural that the leaders of the industry should revert to the controls employed by the Master Cleaners Association, when voluntary co-operation broke down and the contracts remained unenforced.

There is evidence that fines were imposed on violators, and that strikes were called to induce outsiders to join the Institute, and to compel recalcitrant members to maintain the standard price and pay dues. Dr. Squires in a speech at the 1932 convention of the National Association of Dyers and Cleaners, stated:

We depend upon one instrumentality in Chicago that I mention with some reluctance. . . . We [the organized

cleaners in Chicago] have made intelligent and constructive use of the organizations of labor with which we deal. . . . If we find a member who is cutting fast corners, giving discounts, marking one suit of clothes as belonging to the tailor and consequently not charging him for it, we ask workers and drivers to cease work in that plant. If it happens to be a busy morning when the plant owner thinks he may lose a few customers it is quite effective. It doesn't take him more than an hour, as a rule, to pay his two per cent and go along with the proper prices.¹

Owners of the Salzman Peisert Cleaners, the Banner Cleaners, and the Blue Bird Cleaners, each testified in 1934 that they had experienced strikes to induce them to become members of the Institute. Proprietors of Kraus Brothers and Loewy Cleaners, the Paramount Cleaners, and the Eagle Cleaners testified that strikes were called in these plants over prices, stops, or payment of dues, and no labor questions were raised. Testimony of other cleaners showed a marked increase in the number of such strikes in the fall of 1931. Dr. Squires, despite the speech cited above, denied on the witness stand that strikes were called for these purposes.

"Whip stores" were also used for disciplinary purposes. Dr. Squires' files show that 17 such stores originally opened in 1929 or 1930 against cut-rate establishments such as Becker, Peacock, and Checker, were still in operation in 1931, although Dr. Squires discouraged the opening of new ones.

It was more difficult to maintain the "closed solicitation rule" under the Institute than previously, because depression seriously weakened the strength of the unions. Strikes were less effective because it was now possible to employ non-union workers. The drivers' union was weakened, and drivers were unwilling to offend their employers by refusing to pick up "outlaw" work. Union dues declined and they were thus less able to finance inspections needed to enforce the rule.

The Institute and the Gangsters

When both voluntary and collusive measures failed, it is not strange that some members of the industry should think of using violent means to secure price stabilization. Chicago had an available supply of well organized gangsters, and the industry had had

¹National Association of Dyers and Cleaners, Yearbook, 1930-31, pp. 55-57.

past experience with the effectiveness of terroristic methods.

Violence reminiscent of the days of the Master Cleaners Association, broke out again as cut-rate tailors had windows smashed and independent cleaners suffered from tumbler explosions.

While these outbreaks might have been perpetrated by unorganized hoodlums employed for individual jobs, evidence shows that syndicates of gangsters were playing a role in the industry.

At the outset, the organized gangsters were brought into the industry by the independents. Becker's alliance with Al Capone and that of the Central Cleaners with "Bugs" Moran were described above.

In June, 1930, Samuel "Doc" Ginsburg, owner of the Circle Cleaners and generally regarded by men in the industry as an ally of Capone, organized a group of six independents into a special association "to secure protection from strikes and loss of stops" while pursuing a cut-rate price policy. The Michigan Cleaners, who operated the "cash and carry" Checker Stores, had been paying \$50 a week to "Doc" Ginsburg, since December, 1929. They now joined the new association. The Drexel Cleaners, partly owned by Murray Humphreys, Capone's chief lieutenant, also joined this special association. This organization appears to have functioned until the spring of 1931.

In March, 1931, there was a definite clash between the Michigan Cleaners, a "protected" plant, and the Institute. A strike had been called at the Michigan Cleaners. Dr. Squires asserted that the strike arose solely because the Michigan Cleaners had not lived up to a previous agreement to unionize its inside help, and had also employed non-union drivers at a substandard rate. Louis Hollman, one of the proprietors of the Michigan Cleaners later testified, however, that he had offered to negotiate with the unions, but they insisted that he should also join the Institute. It may have been that Dr. Squires did not know the position taken by the union leaders.

The leaders of the union also persuaded Dr. Squires to contribute from the two per cent dues a sum of \$3,000 to finance the strike. This use of trade association funds for promoting a strike was clearly unusual. Dr. Squires justified this by the belief that he was fighting a gangster protected plant, and the objective of ridding the industry of gangsters justified his action. Dr. Squires denied that the money was used for anything but peace-

ful picketing, but there were marked outbreaks of violence during the strike. Several union leaders were arrested at the scene of these outbreaks. Their sentences were later vacated.

In March, 1931, less than three months after Dr. Squires began to act as "sales manager," he received an offer from Al Capone, that Capone take over the work of controlling prices and wages in the industry in return for half the dues paid under the contracts.

Capone had called a group of leaders in the industry to his suite at the Lexington Hotel, and told them that he was constantly receiving offers of as much as 5 per cent of gross sales from cleaners if he would protect them in cutting their prices. Capone then made his proposal for controlling the entire industry, saying "the cleaning business is a racket and you need force to handle it." He said that he did not want to appear in the picture, but suggested that some of his men be placed on the payroll. This proposition was conveyed to Dr. Squires.

Mr. Kaplan, attorney for the Institute, proposed to Dr. Squires that some of the labor union leaders be put on the payroll to receive the same percentage of cash that Capone had asked, and that labor could take the responsibility for paying the Capone syndicate. The trustees also offered to take responsibility for the payments. A majority of the cleaners also appeared to be willing to make an arrangement with the syndicate. Dr. Squires, however, courageously refused Capone's offer.

Capone's lieutenant, Murray Humphreys, then went ahead with an independent effort to win control of the industry. He addressed a number of meetings of cleaners, pointing out the "advantages" of control of the industry by the syndicate. Reported quotations from his speeches show he attempted to sell the idea in a business-like fashion. The "or else" tactics of the predatory gangster were not in the foreground. The initial steps in the organization of a "collusive agreement" type of racket apparently were planned to appeal primarily to the desire for profit rather than fear. Dr. Squires attempted to combat this campaign by holding a mass meeting of plant owners on May 11, 1931, at which support for a "clean program" was voted. He also gave a statement to the newspapers on May 12, 1931, that the Institute would not countenance gangsters in the industry.

Thereafter, a series of events occurred which make it seem

likely that some kind of an informal arrangement with Capone, or with his lieutenant, Murray Humphreys, was entered into in the early summer of 1931 by some of the union officers and officials of the Institute, without Dr. Squires' knowledge.

After some hesitation and somewhat against his better judgment, Dr. Squires was persuaded by trustees to appoint James P. Gorman, head of the tailors' union, as Labor Commissioner, and to finance him to check on price and wage conditions in the industry. Although Gorman received a salary of only \$200 per week and expenses, from June through August, 1931, he received approximately half the proceeds of the Institute from September to December, 1931. Gorman's salary continued until March 24, 1932. He received a total of \$8,400 in salary payments, and \$21,817.78 for "organization." He presented no definite accounting to Dr. Squires. He disbursed these funds in cash and kept no record of his payments.

The possible analogy between payments to Gorman and proposed payments to Capone at once suggests itself. In the Federal Grand jury investigation of Murray Humphreys' income tax, Dr. Squires was asked:

"Doctor, don't you think somewhat of a curve was thrown when Gorman was put over on you?"

To this he replied:

"There probably was."

There is further evidence that money paid to Gorman may have found its way to Humphreys and Capone. Gorman was reported being seen at Capone's hotel in the summer of 1931, and later was seen to associate with Humphreys.

Morris I. Kaplan, who was attorney for the Institute from January until November, 1931, appears to have had dealings with Humphreys beginning in the summer of 1931, and continuing in 1932 and 1933 when Kaplan was active in the Linen Supply Association and the Chicago Laundry Owners Association. Some of the evidence establishing the connection between Kaplan and Humphreys comes from a tapping of Humphreys' telephone made by a special agent of the United States Bureau of Internal Revenue.

Evidence was introduced at the "Racket Trial" in 1934, to show that two checks drawn on the account of the Chicago Laundry and Dye House Drivers Union had been used to pay for a robin's egg blue Cadillac car purchased for Mrs. Humphreys from a Wisconsin dealer in September, 1931.

In the summer of 1931, the International Cleaners, which had previously been one of the six gangster protected independents, became the victim of marked outbreaks of gang violence. Dr. Squires attributed this violence to the fact that the International Cleaners had ceased to pay for protection. There is evidence, however, that certain union leaders were interested in seeing that punishment was meted out to the International Cleaners for doing wholesale work for the members of the Cook County Retail Cleaners and Dyers Business Men's Association, a rival tailors' organization, with a cut price policy. Gorman, the Labor Commissioner, Kaplan, the attorney for the Institute, and Humphreys, Capone's lieutenant, showed astonishing similarity in the threats which they made to the International Cleaners. The threats became actualities with more than coincidental rapidity thereafter. On July 31, 1931, three days after a warning from Kaplan, Jerry Weil, one of the truck drivers for the International, was slugged and acid was poured on the 78 suits in Weil's truck. On August 12, 1931, shortly after warnings from Humphreys, Gorman, and two tailors' union business agents, the plant of the International was invaded by armed hoodlums who wrecked several delivery trucks with sledge hammers. One of the wreckers dropped an auto registration card bearing the name of Philip Mangano. Shortly thereafter, he and Louis "the Louse" Clementi, said to be a well-known Capone hoodlum, were arrested. On January 11, 1932, Benjamin Rosenberg, manager of the International Plant, conferred with the assistant State's Attorney concerning testimony to be offered at the trial of these hoodlums. While on his way home from these conferences Rosenberg was attacked by a gang of men, beaten, and then shot and killed. The newspaper headlines screamed "Another Cleaning Murder." The subsequent investigation, to which Dr. Squires contributed \$3,000 from dues paid under the contracts, failed to affix the guilt. The case of the International Cleaners is important chiefly because it furnishes additional evidence of co-operation between Kaplan and Gorman on the one hand and Murray Humphreys on the other.

If we accept the view that there was some agreement between the industry and Capone dating from the early summer of 1931, we have to observe that control was not complete. Even Capone could not "buck" the depression. One cleaner remarked to the writer that the whole United States army could not maintain cleaning prices in Chicago in the depression. Capone had other interests, and as the

working agreement, if one existed, was only informal, and he was interested in money only, it is to be expected that only sporadic violence would occur.

In the late fall of 1931, Dr. Squires began to suspect that Gorman had gang connections, and he stopped the payment of funds for "organization" at this time. Kaplan ceased to be attorney for the Institute in November, 1931. At about this time Dr. Squires dropped the Drexel Cleaners, in which Murray Humphreys was a stockholder, from the list of members.

Dissolution of the Institute

Dr. Squires' refusal to continue to pay funds to the unions for "organization" appears to have been a major cause leading to the end of the Institute. His refusal to sanction new "whip stores" also alienated certain plant owners. The Institute's failure to get independents into line, or to deal effectively with out-of-town competition also undermined its position. In the spring of 1932 members refused to co-operate or pay dues. They finally asked for Dr. Squires' resignation, because they were contemplating a new organization, presumably one which would countenance the practices which Dr. Squires would not permit when he was in possession of the facts.

In June, 1932, Dr. Squires resigned the Chairmanship of the Institute, and this marked the de facto end of the Institute, although Dr. Squires insisted that he still continued to be sales manager under the contracts which ran till October, 1933.

Because of the forces of depression, the Institute was not nearly as profitable to the industry as the Master Cleaners Association. Dr. Squires failed to realize his objectives of maintaining a "fair price" and "fair wages." He lived to see the collapse of similar price fixing attempts by the N. R. A. At the end of the Institute he was left with obligations of the Institute totalling \$8,000 for which he was personally liable. He collected only a fraction of the promised \$25,000 a year salary during the life of the Institute and later incurred court expenses in connection with the so-called "Racket Trial" which were probably greater than his earnings from the Institute. The physical and mental costs to him must have been very great.

If the Chicago Cleaners and Dyers Institute, with its sales manager contract as a formal device for price control, had

been organized during another period of the business cycle and in a city less gang-ridden than Chicago, the outcome might have been different, at least in the short-run. It is true that in times of prosperity plant owners are less likely to adopt a plan like that of the Institute. They surrender the requisite amount of control over their business more readily under threat of depression. There is also the questionable legality of the plan to consider. However, experience in Seattle in 1936 and 1937 shows that close co-operative action can be organized even in periods of moderate prosperity, and can be made to function effectively with a minimum of violence. Such joint action, however, results in uneconomically higher prices, and is a burden on the consumer.

CHAPTER V

PRICE CONTROL IN THE CHICAGO CLEANING AND DYEING INDUSTRY, JULY 1932--AUGUST, 1936

The dissolution of the Cleaners and Dyers Institute in June, 1932, did not mark the end of price control in the Chicago Cleaning industry. Associations of Chicago cleaners continued to be organized and reorganized with a series of new names which were chiefly permutations of the key words of the old titles. Some of the subsequent experiences were so similar to the past that the reader feels he is following a story based on an outworn plot. There were some new angles in the narrative, however, as local price fixing received Federal governmental sanction for a brief period under the N. R. A. Code, and as the industry subsequently experimented with court injunctions as a means for price control. Federal action against Capone and Humphreys lessened the influence of the "syndicate." The reform administration of State's Attorney Courtney, bringing with it the trial for conspiracy of a number of former Institute leaders in the winter of 1934, also had its influence on events of this period.

The Chicago Association of Dyers and Cleaners, organized in June, 1932, as a successor to the Institute, met with only moderate success in controlling prices, although it used "whip stores," strikes, and probably violence as disciplinary measures. From many sources it was reported that Murray Humphreys was receiving \$500 a week for "policing" the industry. Although the price for a standard garment was reduced to 58 cents in December, 1932, many cut below this price. Further outbreaks of violence in the spring of 1933, brought the industry ill repute.

In May, 1933, the cleaners invited Judge Francis Borrelli of the Municipal Court to head a new organization called the Cleaners and Dyers Association of Metropolitan Chicago. Until July he lent his prestige to a verbal agreement in the industry to support a minimum price of 85 cents "cash and carry", and \$1.00 "call and deliver." It seems probable that payments to Humphreys ceased at

this time, for in May, 1933, Humphreys was involved with a Federal Grand Jury inquiry into his income tax. Capone had been convicted on similar charges in October, 1931. The relatively high price set by Judge Borrelli led to a small volume of work, and within two months, to a new wave of price cutting.

The next association of cleaners in Chicago relied at the outset mainly upon the price-fixing provisions of the N. R. A. Cleaning Code. This organization, called the Cleaning and Dyeing Plant Owners Association of Chicago, was organized in October, 1933. In its constitution it provided that it was an unfair trade practice to sell at a price less than that set by the Board of Directors as a fair and equitable price, after a study of actual costs in the industry.

The minimum price in the Chicago area set under the N. R. A. Code on November 22, 1933, was 95 cents, with no "cash and carry" differential. This price was subsequently reduced to 75 cents, but the price was still appreciably above prevailing Chicago rates. The Association price had been 59 cents just before the advent of the Code. Cut-rate prices had been 49 cents or lower. Most of the chains refused to comply with the price provisions, although they adhered to the minimum wage provisions. The minimum wages provided in the Code were appreciably below the Chicago union scale. The Chicago Joint Industrial Relations Board, set up under the N. R. A. Code Authority, with Dr. Squires as Chairman of the Board, attempted in January and February, 1934, to force all plants in the Chicago trading area to pay the union scale, whether they dealt formally with the union or not. Dr. Squires felt it was permissible for the Board to substitute this scale for the Code minimum wages, under the "self government" principle which led to the establishment of the Board, but the N. R. A. headquarters in Washington, D. C. ruled that the Board had exceeded its authority and dissolved it.

The Trial for Conspiracy, January-April, 1934

The decision of the N. R. A. in the case of the Chicago Joint Industrial Relations Board may have been influenced by the discovery in Washington that Dr. Squires and other members of the board were on trial for conspiracy.

After an investigation extending over three months, the Cook County Grand Jury on July 27, 1933, had indicted 24 men

connected with the cleaning and dyeing, laundry, linen supply, and carbonated beverage industries. Among those directly connected with the cleaning industry were Dr. Squires, Morris I. Kaplan, Walter Crowley, and Ben Abrams (alias Albert), James P. Gorman, and eight other union leaders. Others named included Oscar F. Nelson, alderman of the forty-sixth ward in Chicago, and an attorney long interested in labor cases. Al Capone and Murray Humphreys were also indicted. Al Capone was not brought back from Atlanta Penitentiary to stand trial. Murray Humphreys fled and was not apprehended. The other defendants all pleaded "not guilty" when the case came to trial on January 4, 1934.

Much of the evidence presented at the trial has been referred to above, in the description of the activities of the Institute. Many cleaners whom the writer had interviewed privately, testified at the trial. The financial records of the Institute were introduced. Testimony supposedly given in confidence by Dr. Squires and James P. Gorman at the Federal Grand Jury inquiry into Murray Humphreys' income tax, in May, 1933, was also read into the record. This record, which extended to 12,000 pages, thus became one of the most valuable sources of information on collusive practices in existence.

The prosecution charged that the Cleaners and Dyers Institute was a price fixing and racketeering organization which had employed Al Capone to "police" the industry. It was contended that Dr. Squires, because of his University connections, had been selected as a "front" for the organization.

The defense denied any connection between the Institute and Capone, and stressed the former alliances of gangsters with independents in the industry. They contended that the price-fixing activities of the Institute were models for the N. R. A. price regulation, which was still in force at the time of the trial. The defense attorney closed with an appeal to the jurors to choose between the prosecuting attorney who condemned price-fixing, and President Roosevelt who advocated price-fixing and other measures to bring the country out of chaos.

The jurors evidently "chose Roosevelt," for they brought in a verdict of "not guilty," on May 5, 1934. The prosecution attributed the result to the N. R. A. analogy, and also to the fact that Dr. Squires and Alderman Nelson had given the defendants an air of respectability. It was estimated that the trial cost

the State \$250,000 and the defendants a like amount.

The jury, thus, after hearing the evidence and being advised on the law, found that there had been no conspiracy. One can not avoid the conclusion, nevertheless, that, whether or not there was conspiracy technically, there were collusive practices which were economically most undesirable. The evidence presented in preceding pages makes this conclusion unavoidable.

Price Fixing by Injunction, October, 1934--May, 1936

After the N. R. A. price provisions were suspended in May, 1934, the plant owners next attempted to secure court protection for a minimum price of 69 cents "cash and carry," and 85 cents "call and deliver." In October, 1934, the Plant Owners Association on behalf of its 92 members filed in the Circuit Court of Cook County a bill of complaint against 22 defendants charging them with engaging in ruinous competition. Circuit Judge S. H. Klarkowski granted a temporary injunction ordering all cleaners to refrain from cleaning standard items at less than 69 cents "cash and carry" or 85 cents "call and deliver." There was some precedent for this, as the laundry industry had been granted a similar injunction in 1934 against 17 wet wash laundries, restraining them from selling wet wash below $4\frac{1}{2}$ cents a pound. Later this injunction had been upheld by the Appellate Court.

The cut-rate cleaners immediately appealed their case, pointing out that the laundries restrained had been members of their association while there was no contract between the cut-rate cleaners and the Association binding them to charge any specified price. The cut-rate cleaners further questioned the Association's estimate of "actual cost" at from 70 to 80 cents a garment when a plant was operated at capacity. The defendants stated that the Association figures were padded with inflated values dating back to boom days. In their own plants they could make a profit at 50 cents a garment, they contended.

The temporary injunction was dissolved by the Appellate Court on December 19, 1934, but on the technical ground that the court order had been issued without a hearing, rather than on the merits of the case.

A hearing was accordingly held before Master in Chancery William R. Swissler in the spring of 1935. An elaborate study of costs, prices, and profits of both plaintiffs and defendants was

made. Four Association plants (not operating at capacity) showed an average cost of 90 cents per garment and an average loss per garment of 2 cents, while Abarbanell Brothers, a cut-rate chain, showed a profit for the year 1934 of 4.2 per cent on net sales, with a price of 50 cents or less. Abarbanell's labor cost per garment was appreciably less, partly because of difference in quality of work, and partly because it was a non-union plant.

On the basis of the hearing, Judge Benjamin Epstein issued an injunction on July 13, 1935 against offering a price less than 90 cents "call and deliver" or 75 cents "cash and carry." Edward Fink, of the Peacock Cleaners, a violator, was promptly sentenced to 60 days in jail and fined \$3,000. He was released on bond, however, after a few hours in jail. The sentence and fine were subsequently set aside by the decision of the Appellate Court, which dissolved the injunction on May 13, 1936.

The Plant Owners Association in presenting its case had argued that free competition belonged to "the early stage of capitalist economy . . . but is no longer responsive to present social needs." The Court ruled, however, that the "Courts cannot control the price at which a merchant's commodity that is not of general public interest is to be sold."

Thus attempts at price control through injunctions ended unsuccessfully. It appears that the differing economic views held by the judges of the different courts explain the granting of the price-fixing injunctions by one group of judges and their dissolution by the higher court. The judges of the Circuit Courts whose philosophy was similar to that of the supporters of N. R. A. price fixing efforts, had been willing to grant the injunctions, but the Appellate Judges refused to sustain them, believing that restraints of trade simply play into the hands of monopolistic groups.

None of the organizations which attempted price fixing in the Chicago cleaning industry between July, 1932 and May, 1936 met with continued success, although their controls ranged from Murray Humphreys' gangsters on one hand to the Federal N. R. A. Code on the other, with verbal agreements and court injunctions lying between these extremes.

CHAPTER VI

ANALYSIS AND CONCLUSIONS

The Economic Desirability of Price Control Plans Considered

In appraising the economic desirability of the various price control plans described in the foregoing pages, it is necessary first to consider the basic fallacy (as it appears to the writer) involved in using average cost data to determine price. In this respect, the cost accounting activities of the Cleaners and Dyers Institute of Chicago, the work of the N. R. A. Price Study Board, and the agitation for higher prices in the cleaning industry's trade journals were all similarly in error. Their underlying assumption may be expressed somewhat as follows: Price "should" be such that it will cover total average unit cost, that is, cost calculated so as to include both fixed expenses and direct outlays, and averaged by dividing total costs so figured by the number of units produced. If prices tend to fall below this point, then it is right and just that group or governmental action should increase them to the point where total cost is covered.

This view, however, involves a basic misunderstanding of the relation between cost and price in a competitive society. In the short run, if there is competition, price has no necessary relation to average cost. A producer in a truly competitive situation will produce to the point where his marginal cost (that is, the additional cost resulting from additional units of output) is just equal to the market price. This market price in a competitive situation is a datum which no one producer can affect, except indirectly by deciding to produce more or less output. The producer will not stop short of the point where marginal cost and price are equal because additional profits may be made by increasing output. He will not proceed beyond this point (if he is aware of the true situation) since additional units will be produced at an out-of-pocket loss.

All this discussion, it should be noted, relates to mar-

ginal cost. Total cost in the short run has no significance in the determination of a competitive market price.

The economic unsoundness of the use of the average cost concept as a basis for price determination can be best seen in a study of its results. In 1931, because he said "costs," that is, total average unit costs, were not being covered (which was true in all probability), Dr. Squires increased the price of cleaning a three piece suit from \$1.00 to \$1.25. Thus, at a time when volume of production had slumped badly and when there was extensive unemployment in the industry, the volume of production and of employment were still further curtailed by an increase in the price asked.

The contention has frequently been made by men in the cleaning industry when interviewed by the writer that price competition has no "bottom" but can go to any length. However, since the marginal cost curve for a cleaning plant undoubtedly slopes upward after a certain point has been reached, this seems improbable. It seems unlikely that a producer will for long offer a price which attracts additional business if that additional business costs him, in direct outlay, more than he receives for it. A man in that position would certainly become aware of his situation before long, no matter how unenlightened he might be.

It is not this type of "selling below cost," moreover, which is attacked by enterprisers who wish to maintain price. What is involved in their allegations (although of course they do not use this terminology) is that some producers aim to make price and marginal cost equal without regard to the relationship between price and average cost. This they regard as most ignoble and traitorous.

Overexpansion of the Cleaning Industry and Price Maintenance

It is frequently argued that such industries as cleaning and dyeing tend to overexpansion and that price control is, therefore, essential. Let us examine this claim in detail.

Because of the great practical difficulties, it has been impossible to conclude definitely whether or not the cleaning industry in Chicago and elsewhere has actually been overdeveloped. To determine by the use of statistical and accounting data whether an industry is overexpanded would require, among other things, the following: (1) The facts concerning the return which there would

be on investment in this and in every other industry if this and every other industry were operating under competitive conditions, allowance being made for differences in risk and in non-financial returns. (2) The calculation from these data of the average return in all industry, allowance for the factors just noted again being made. (3) A comparison between the return to the industry in question and this average return.

The important point to note, however, is that whether or not there is overexpansion, no sound case exists (for reasons noted below) for price control. Also the reader should bear in mind that in a period of depression all industry appears to be overdeveloped even though under more usual economic conditions it would not so appear.

Normal readjustment from a situation of overexpansion.-- An industry, then, is overexpanded if, when operating where marginal cost equals price, it does not pay a return to the various factors equal to what they would get in other competitive employments. When this is the case (if men act in accordance with their economic interest) as specialized equipment and skills wear out or can be transferred to other uses, such equipment and skills will not be continued in the industry, but will be placed where they can secure a larger return. Then with a smaller amount of equipment and, therefore, a smaller total output, prices will rise, since producers will find that at the previously existing prices the amount demanded is greater than the forthcoming supply. As a result of this, the price which was formerly less than average cost will tend to be raised (through reduction in the supply; not through collusive agreement) to a level at which it will give to each unit of resource employed the same remuneration that it could get if it were completely liquid and could be applied to any use. This readjustment of factors among various uses is a normal thing under the free enterprise system and the price that prevails before the complete adjustment is reached cannot be regarded as a "cut-throat" price even though it does not cover total cost.

Reasons for overexpansion.--Overcapacity may result from a decline in demand; or it may come from the fact that men have, for any reason entered blindly into an industry in which they are not needed; or overcapacity may come about if profits are good and producers already in an industry plow back earnings in excess of the additional amount required by the insufficient supply of the

product (indicated by the high price and high profits). It is quite possible that too much capital will thus be allocated to an industry for expansion by one individual and this may be unknown to another. This is especially true if construction of capital takes a relatively long time. Thus a real need for capital may lead eventually to overproduction of specialized equipment.

If, moreover, a number of ignorant producers are in a particular industry and continue to invest and reinvest since, because of their lack of knowledge they are not aware of alternative employments of capital offering better return, they may permanently depress profits in their industry. In short, the problems arising from the existence of a group of inexpert and poorly trained business men in any industry relate not to the setting of prices but rather to the entrance into, and the continued existence in the field, of such men.

In brief, we see that under competitive conditions we can have price less than average cost when there is a readjustment being made from a situation of overexpansion or a situation of reduced demand. Such conditions are to be expected in a dynamic free enterprise system and do not justify any concerted action at price raising.

The role of non-financial returns.--There are factors which may lead to a permanent expansion of an industry to a point where return is less than "normal." These, however, are not the result of ignorance and it hardly seems that they can be held to be economically unsound, as can the misallocations just discussed.

One of these factors is the desire many individuals have to be their own bosses or to boss others. Such persons may prefer to work in lines of activity where this is possible, even though the return there is less than it is elsewhere. The very preference for this line of activity, of course, is the cause of the low return.

Price Maintenance and the Business Cycle

In an effort to appraise the economic effects of a price maintenance program, one aspect of paramount importance is the effect of the policy upon recovery when business is in a depressed condition. This is of especially great significance, since, as we have noted above, these efforts to maintain prices are increased during a time of industrial inactivity.

Whatever may be the factors which precipitate the downward movement in the business cycle, one of the outstanding phenomena of a depression is the reduction in the amount of circulating media resulting from the contraction of bank credit. When the total number of counters in the economy are thus reduced, the number of counters asked for articles and services must be correspondingly reduced or the total number of articles demanded will be much less and production will progressively diminish.

This aspect of business cycle theory is well stated in the following excerpts from a memorandum submitted on April 26, 1932 to members of the House Committee on Military Affairs by members of the staff of the Economics Department of the University of Chicago. In this report it was stated:

. . . . as long as monopolies resist pressure for lower prices, deflation may continue indefinitely. The more intractable the "sticky" prices, the farther credit contraction will go and the more drastic must be the ultimate readjustment. We have developed an economy in which the volume and velocity of credit is exceedingly flexible and sensitive, while wages and pegged prices are highly resistant to downward pressure. This is the explanation of our plight.¹

It seems clear, therefore, that such plans as we have outlined above, while sometimes aiding producers in the particular industry to keep solvent and avoid losses, are socially most undesirable. That which is of benefit to the enterprisers in one branch of the economy is very definitely to the detriment of the economy as a whole.

The "Right" to Group Action

In preceding pages it has been noted that producers in this industry, as in others, frequently argue that they should be given the "right" to force all in the industry to follow those practices which will make the industry most profitable for all its members. That is, it is contended that price reductions are wrong, because, when met with counter price reductions, the net result is less profit for all concerned. No one in the industry should be allowed, it is argued, implicitly or explicitly, to follow any policy which does not lead to a maximizing of profits for the industry as a whole. This point of view, it is argued, must be

¹Memorandum cited, p. 5.

followed if "cut-throat" competition is to be avoided.

It is said, moreover, that consumers have no right to expect price reductions, if, after such reductions are made all along the line, the industry finds itself in a less profitable position than before. Consumers and the public, it is implied, are justified in demanding reductions only under those circumstances in which a single producer who has monopolized an industry would find it profitable to reduce his price.

The unfortunate results flowing from the application of such an economic philosophy cannot be stressed too strongly. What is being urged here is not the end of "cut-throat competition" but the end of competition itself. The public is asked to accept the view that it is right and proper for producers to combine and act in such a manner as they, as a concerted group, feel will be most profitable. Yet a competitive system will work out well only if it is truly competitive and this calls for the presence of a number of producers acting with an eye to their own individual welfare and not the welfare of the group as a whole. It is true, of course, that genuine competitors, acting in this independent fashion, will find their industry is less profitable than if there were concerted action. A monopolized industry will always find itself more profitable than a competitive industry. Far, however, from being a criticism of the action of competition, this fact is one of its chief justifications.

The Chicago Cleaners and Dyers Institute and Genuine Social Control Contrasted

A sharp distinction must be made between a discussion such as we have just given of the merits of a private control plan and the merits of a plan for some sort of genuine social control. It has been argued by some that the concept of the public utility should be expanded and that certain industries not now under public regulation should, for a variety of reasons, be taken from the class of industries in which society presumes that competition is to be the regulator of prices and placed in the category of public utilities. Thus Justice Louis Brandeis, in dissenting from a majority opinion of the United States Supreme Court, held that, contrary to the findings of the majority, the ice industry might be regarded as a public utility and, therefore, subject to regulation as to prices and capital investment. One may in this fashion argue

that control over an industry should be exercised, even in the case of businesses other than those usually regarded as public utilities, in the interest of securing the best allocation of capital and in the interest of protecting both actual and potential producers from the loss involved in overexpansion. The main question involved here is whether or not some one in charge of an industry under a system of social control (of whatever form) would be competent enough and honest enough to administer the system more efficiently than the free enterprise system does in a more or less automatic manner, through allowing each individual to pursue the policy which he thinks will be most advantageous to himself.

It is not in point here to try to weigh the pros and cons of this matter. The purpose of this discussion is merely to focus attention upon the difference between a control scheme such as that undertaken in the ice industry (in the case referred to above), in which an authority, presumably impartial, regulated the business in the interests of all concerned, and a control scheme such as that of the Cleaners and Dyers Institute.

In the former, in theory at least, the interests of the consumer are represented through the agency of government. In the latter type there is no such protection of the public. The "czar," while he may say that he will represent the interests of all, in practice finds it virtually impossible. The pressure in such a private control scheme, even more than in a public one, is from one side. The "dictator" is paid by one of the interested parties; he is constantly in contact with them and is, therefore, very likely to be sympathetic with them and with their interests. Whatever may be the contractual arrangements, in fact he holds his office at their pleasure. The experience of the Institute is clear proof of this. It is, therefore, apparently inevitable that the decisions of the dictator will be biased, however great may be his wish that they shall be impartial. Essentially, in such a case, the producers, through an appointee, are the judges of their own cause.

The Nature of Racketeering in the Chicago Cleaning Industry

Our general conclusion when considering motives back of the formation of the Chicago Master Cleaners and Dyers Association was that control was not instituted in the cleaning industry because of "excessive" competition. The reduction in wholesale rates at the time the cleaners' organization was formed was, in all

probability, simply the outcome of a reduction in costs. The desire to make the tailor observe a price equal to the rate charged by the retail plant owner was, in large part at least, a move to divert work from the former to the latter.

It seems that two factors were primarily responsible for racketeering in the cleaning industry in Chicago. The first (which appears to have been most important) was the desire on the part of men in the industry to secure the profits which monopoly control would bring; the second was the effort on the part of certain officials of various organizations to secure graft.¹

In this connection it is helpful to recall the two types of rackets distinguished by Hostetter and Beesley.² One, which they designate the "Simon pure" racket³ is inflicted on an industry, trade, or business by an outsider who collects tribute from the men established in the field of endeavor. In the other type (which they dub the "collusive agreement" racket), conspiracy between various groups in an industry, between employers associations and trade unions, for instance, is the outstanding characteristic of the racket.

In the former type, tribute for the "organizers" is the objective. In the latter, profit for employers, graft for officials of all the organizations involved, and perhaps higher wages for employees are among the aims in view. Since, as we have just stated, both monopoly profits and graft were, apparently, among the motives behind the formation of the racket in the cleaning industry, this racket fits into the category of collusive agreements. Control through the use of interlocking checks supplemented by violence was not something imposed on the cleaners from without, to their detriment. Rather it grew up from within and worked, for a time, to the financial advantage of all parties concerned, except the consumers.

That organized gangs have engaged in parasitic racketeering in many industries is clear. However, the evidence gathered in this study appears to indicate that the role of organized gangs in this

¹The reader should bear in mind throughout this discussion of racketeering the way in which this term is being employed. The essence of racketeering, as here discussed, lies in collusion between employer and union groups. It may or it may not be accompanied by physical violence.

²See chapter iii, p. 18.

³This type is also called a "parasitic racket."

industry has been quite different. Violence first was used, it appears, by organized businessmen and labor against non-conformists to induce price maintenance or the observance of union wage scales and conditions. The immediate agents perpetrating this violence were probably hired hoodlums and, perhaps, some union agents themselves. The hoodlums were perhaps not members of well organized racketeering gangs.

The organized gangs, such as the one headed by Al Capone, were invited into the industry by these non-conformists to protect them against the depredations of the mercenary hoodlums hired by the organized factions of the industry. We have seen this happen in the case of Becker's alliance with Capone and Kornick's alliance with Moran in the 1920's. The alliance between the Michigan Cleaners and Humphreys in 1929 and 1930 is also of this pattern. A somewhat different feature is evidenced in the subsequent probable switch of Humphreys' forces from the price cutting, non-conforming Michigan Cleaners to the organized cleaners in the middle of 1931. Whether the initiative came from cleaners made desperate by depression losses, who saw in price maintenance their economic salvation, or from the gangsters who saw a chance to find profitable employment, there was, it appears probable, an alliance between the organized industry and an organized gang. This was, perhaps, the first time such an alliance had been made in the Chicago cleaning industry. Always before, it appears, the organized gang had been protecting the unorganized independent from the violence which probably had its inception with organized employer and union groups in the industry.

This alliance of organized gangdom and organized industry, was probably, however, not of the parasitic type of racketeering. It was of the collusive type, with the organized gang acting as a fairly effective hired "policeman." This "policeman" would, of course, receive excellent remuneration but would reinforce the objective of the employer-employee combination.

This brings us to the question as to whether a relaxation of the anti-trust laws which would sanction private price-fixing by industry would eliminate a potent cause of racketeering.

"Cut-throat competition" and racketeering.--The writer is aware that in taking the position which he has regarding the desirability of competition, he is expressing a view quite contrary to that held by numerous students of the subject. It is frequently

argued that an important factor favoring racketeering is "cut-throat competition" among small business men. The implication of this argument is that once excessive expansion has been made, violence is used to keep prices up to the level at which they "ought" to be, that is, at the level which will permit all of the producers to remain in business. To eliminate racketeering, the implication runs, the producers in these fields should be allowed, through revision of the anti-trust laws, to achieve price regulation legally; then they would not have to resort to violence and to the hiring of hoodlums.

What is to be said of this contention? It is true that very frequently racketeers get control of small scale retailing groups in which business rivalry is very keen and in which business mortality is high. Perhaps it is true that survival of all the producers or distributors in the field at any given time can only come about through the maintenance of a monopoly price. Does this analysis, however, lead one inevitably to the conclusion that the various writers come to, namely that the sharp claws of competition should be clipped through revision of the anti-trust laws?

If combinations were allowed, through relaxing of anti-trust laws, then through the exaction of a monopoly price, producers who would otherwise be forced out would, in effect, be subsidized by consumers. This, evidently, is not recognized by the commentators mentioned above but clearly is the case. Producers thus favored would thereby be granted an especially privileged position which, it seems, is not their due. If they cannot survive in the struggle, they should go down, and consumers should not be taxed to enable them to survive.

It may be objected, however, that the alternative is racketeering. This seems doubtful. Racketeering would probably exist in these lines even though competition did not ruthlessly condemn some producers to extinction, if conditions for racketeering were favorable. Even if business rivalry were not keen, as long as legal prosecution is, for whatever reason, halting, as long as producers are vulnerable to attack through window smashing or bombing, as long as the market is local and as long as a supply of hoodlums is available (to mention some of the requisite conditions) racketeering which makes possible high prices and monopoly profits, will continue.

The relation between "cut-throat competition" and racket-

eering may also be examined from another angle. If competition in service industries tends to be "cut-throat" and hence to encourage racketeering, one would expect to find racketeering wherever service industries were actively competing. This, in practice, we do not find. Certain large cities where law enforcement is well handled appear to have little if any racketeering.

It seems clear from the foregoing analysis that conditions favorable to racketeering can exist with or without a situation of "cut-throat competition," and it is, therefore, improbable that such a situation is the primary cause of the use of violence. We must look further for this.

Why racketeering in the cleaning industry?--The desire to control prices and receive monopoly gains through limiting competition is, it appears, the primary motive behind those activities in the cleaning industry which we call racketeering. Since, however, this desire is much more wide-spread than the racketeering which in some instances it induces, we must look further for the supplementary factors responsible for the collusion and violence we are tracing. One element of much importance in this connection is the extent of the market for the services of the industry. For the most part, the market for cleaning is purely local, though, as we have seen above, there are exceptions to this. This narrow market aids racketeering for in a nationwide market, price control maintained through the use of violence would obviously be much more difficult because of the larger number of producers involved.

A second element in the situation which probably aided the growth of racketeering was the fact that many of the men in the industry were not averse to using very questionable methods, or at least did not strongly object when others did so in their behalf.

Certain characteristics of the industry form the third factor which has fostered racketeering. Establishments in the industry are vulnerable. Large plate glass windows make excellent targets for bricks. Bombing and acid throwing is comparatively easy since the hoodlum can readily escape from a plant or shop to a waiting car afterward. Another important characteristic is that the customer's property is in the custody of the cleaner; therefore, any loss of confidence on the part of the customer, such as comes about when a firm is under attack is very serious, and readily undermines a business. This form of "persuasion" is, there-

fore, readily effective. The strategic position of the drivers' union, and the key position which the teamsters held, is also a factor to be considered.

Racketeering in the Chicago cleaning industry was, quite probably, fostered by the fact that before the use of violence was wide-spread in this industry, there was a tradition of violence in Chicago and a supply of thugs and hoodlums ready to do as bidden. Closely related to this, of course, is the fact that law enforcement has been very lax in Chicago. This almost certainly aided the growth of rackets in that city, as the foregoing discussion indicates. There is, as we have shown, much evidence to indicate that, on several occasions during the 1920's when attempts were made to prosecute on the grounds of conspiracy, influence with law enforcement officials was used to prevent conviction. At the very least it must be said that much more could have been done than was done to bring about verdicts of "guilty." It should also be noted that when a determined effort was made to stamp out what prosecutors thought was racketeering, violence tended to subside.

Is there a cure for racketeering?--If we are correct in the foregoing disagreement with the contention that a revision of the anti-trust laws will prevent racketeering, it appears that the remedy lies outside of the realm of economics. Although racketeering is to a considerable extent economic in origin, it appears that there is little that can be done in the sphere of economics to eliminate it. It represents self-interest out of bounds, overriding the various social and political safeguards, in the way of business ethics and legal enactments, which have been erected to keep this self-interest in check. The remedies, therefore, must lie in changes other than economic.

The campaign of Thomas E. Dewey, now District Attorney for New York County, against racketeering indicates what can be accomplished by competent, vigorous, and honest law enforcement officers. While a detailed consideration of Dewey's work is outside of the scope of this study, a few words on his methods are in order since his work has been so effective and since it may well serve as a model for action in other cities. Among the aspects of his approach which are most important one may note the following: Before formal legal action is taken there have been in each case months of careful investigation by an honest and competent staff

of accountants, lawyers, and investigators. The case is thoroughly prepared before it is presented to a jury. Witnesses are encouraged, in a variety of ways, to speak freely without fear of reprisals from underworld characters. Every precaution for the safety of witnesses is taken. The fact that Dewey is vigorous and honest is, of course, of prime importance. Little racketeering would be possible were it not for the acquiescence of corrupt or lax law enforcement officers, judges, and politicians.

Price Fixing by Trade Associations and Collective Bargaining Compared

The burden of the foregoing pages is that it is economically undesirable for society to permit groups of producers to combine to fix prices. If this is true, one may logically ask: can one justify organization of workers into trade unions with the objective of bargaining concerning the wage rate?

In the opinion of the author, there are certain substantial differences between these two cases which are of vital importance. In the absence of trade unions, actual wage rates may be appreciably under the theoretical equilibrium wage rate which would prevail if there were a perfectly organized labor market. Because there are frequently few buyers facing many sellers in the labor market, because the few sellers may agree on a maximum price to be paid for labor, and because the seller may be grossly ignorant concerning the conditions in the labor market, actual wage rates may be such that they involve exploitation. A union may, through collective bargaining, end this exploitation. However, this fact should not blind us to another equally important fact, namely that unions may succeed in boosting wage rates so high that they curtail employment opportunities. There is the possibility for evil as well as good in the power which organization brings.

The weakness of the seller of labor in individual bargaining, then, is the justification for collective action on the part of labor. Is the seller of cleaning service in a similar weak position? This seems highly doubtful. He is not faced with a few, strong, well-organized, co-operating buyers, as the worker may be. He does not have inferior knowledge of the facts concerning the market situation. On closer view, then, the justification for trade unionism does not carry over into a justification for trade association action with respect to retail prices.

The Education of Producers and Potential Producers

The final question to which we must address ourselves is: If we conclude that price fixing is not a desirable or economically constructive move, what positive suggestions can be made for improving the functioning of small industries such as the one here under consideration. While the evidence is not conclusive, it may be that small industry, because of the ease of entrance, tends to attract too much capital. If this were definitely established by an impartial research agency, that information would be of great value to potential producers, in guiding their investment policy.

Further, if workable techniques, embodying the marginal approach to cost accounting, were given wide publicity, and secured more general acceptance as a guide to price policy, producers would undoubtedly be enabled to act more intelligently. It should be noted, however, that this sort of accounting education would not bring the price stability that trade associations desire. Rather, it would more likely induce price declines during a depression since this method of cost analysis focusses attention upon the fact that in slack times additional orders can be taken with a very small increase in total cost.

Knowledge of the type that has just been discussed, it is important to note, is not likely to be forthcoming from a trade association. Such an association is not broad enough nor impartial enough to make a comparative study of the profitability of various industries. Since a marginal approach to costing is likely to induce price declines, an association is not likely to promote this type of cost accounting knowledge. Rather, organization of producers is more likely to have the same effect today that it did more than 150 years ago when Adam Smith wrote: "People of the same trade seldom meet together, even for merriment and diversion but the conversation ends in a conspiracy against the public or on some contrivance to raise prices."

Concluding Paragraphs

From a social point of view it is not desirable to foster private combinations in service industries to maintain prices. Competition is needed to secure maximum utilization of human and material resources in the industry. The only alternative is bureaucratic regulation which might be practical, but which would

present great administrative problems. Furthermore, the courts in Illinois, New Jersey, and California have refused to consider the cleaning industry as affected with a public interest and so deserving of regulation in the same manner as a public utility.

It is true, of course, that in the short run private combinations to maintain prices yield advantages to the participants. In the Chicago cleaning industry both labor and capital shared in the gains which resulted from collusive action. Even though gangsters were invited into the industry to help maintain collusive control, there were profits for the industry as well as for the gangsters. When private price-maintenance plans are put in operation, the gains for the industry are at the expense of the consumer and at the expense of labor in other more competitive industries, or even in other monopolized industries in which demand is more elastic than in the industry in question.

In depression years, sound social policy dictates that adjustments should be in prices rather than in the volume of production so that greater unemployment may be avoided. It is just at this time that the producers are most insistent that price reductions are the result of "ruinous competition," and that artificial restraints on prices must be imposed so that average as well as marginal costs will be covered, no matter what this may do to the volume of production and to employment. If associations for price maintenance are formed in time of depression to carry out these objectives, they usually prove unstable because of the tendency for individuals in the group to cut prices so long as marginal cost is below the current price.

Associations for price maintenance are thus uneconomic from the social point of view and are increasingly undesirable when they maintain their monopoly position by collusion and violence. The latter practices are illegal under existing statutes so the remedy appears to lie in better enforcement by upright officials.

The conclusion that free competition, even in depression, is better for society may appear to be unduly harsh upon the individual enterpriser or corporation which may be forced into bankruptcy, especially if financing has been done to a large extent by bonds rather than stocks. To this it may be answered that in a converse situation the enterpriser would expect to receive the gains resulting from expansion of demand in prosperity or from a

general upward trend in the demand. Hence the enterprise must take the losses during periods of business stagnation.

The alternative policy to one of free competition would call for the creation of a number of monopolistic blocs, each with prices and wages fixed. Some of the N. R. A. codes were constructed along these lines. These blocs, however, gain their advantages at the expense of the consumers and of any other industries not so organized. If all are organized, rigidities exist throughout the system. The result in this latter situation is likely to be lower production and unemployment throughout the economic system.

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